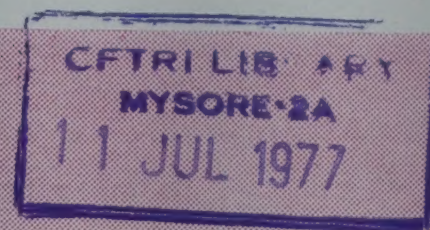


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No. 24



A Janata Budget

No Second Thoughts

The North-South Dialogue

Doing Business in Iran

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A janata budget

11 JUL 1977

THIS is a janata budget although the janata may not readily see this. The Finance minister has had a real try at setting new directions to public expenditure. "Within the short time available to us", the Janata government has recast the annual Plan as processed by the previous government and "true to the promises made to the people", the budget has provided for additional outlays for agriculture, irrigation, power, khadi and village industries, sericulture, handlooms, postal and telephone facilities in rural areas and wide-ranging rural infrastructure programmes covering, among other things, such schemes as durable link roads and rural water supply. The budget allocations this time for these purposes are an earnest of programmes which the government proposes to pursue consistently and with accelerating tempo over the coming years. However it will take time for their benefits to be actually experienced by the people and therefore the change in priorities which this budget attempts to initiate in the realm of public expenditure may be appreciated by the people only retrospectively. The total annual Plan outlay on agriculture and allied services, major, medium and minor irrigation projects and fertilizers, together with provisions for cooperatives and power sectors attributable to rural areas, works out to Rs 3,024 crores, or 30.4 per cent of the aggregate outlay of the central, state and union territories plans, which itself will be higher at Rs 5,790 crores as compared with the previous year's figure of Rs 4,759 crores.

Meanwhile, the absence of spectacular tax reliefs in central excise duties may cause disappointment to the common man who would have welcomed a reduction in these imposts where essential consumer goods are concerned. Mr H.M. Patel, however, was in no position to contemplate large surrenders of revenue. He has therefore confined himself to a few gestures and some of these, as in the case of handloom goods, will directly benefit the producer rather than the consumer. Consequently, the substantial tax components in the prices of many articles of everyday consumption have been left unchanged in a period of high and rising prices. The public must find its satisfaction mainly in the fact that, although the Finance minister has raised a net additional tax revenue of Rs 142 crores, he has refrained from levying higher excise duties on goods the cost of which significantly affects the standard of living of the janata.

In the direct tax field, the janata has received an expression of the government's goodwill in the form of the raising of the income-tax exemption limit to Rs 10,000. However, by deciding to keep the nil tax slab unchanged at Rs 8,000, Mr Patel has run the risk of being accused of having honoured only the letter of the undertaking given in this respect in his party's election manifesto. At the same time, the common man is free to draw such satisfaction as he can from the increases in the income-tax surcharge and the wealth tax rates which will pick some more rupees from the pockets of the higher income groups. The Finance minister has announced some concessions for the corporate sector, the chief of which is the

Central Budget at a Glance

(Rupees in Crores)

	1976-77 Budget	1976-77 Revised	1977-78 Budget
Revenue			
Receipts	8219	8507	9424
			(+) 130*
Expenditure	7690	8554	9487
	(+) 529	(-) 47	(-) 63
			(+) 130*
Capital			
Receipts	4423	5252	5942
Expenditure	5280	5630	6081
	(-) 857	(-) 378	(-) 139
Total			
Receipts	12642	13759	15366
			(+) 130*
Expenditure	12970	14184	15568
Overall Deficit	328	425	202
			(-) 130*
Uncovered Deficit			72
*Effect of Budget proposals			

near-universalisation of the investment allowance scheme and the most interesting of which is the fiscal incentive for facilitating the salvage of sick industrial units. Both are important from the point of view of promoting or protecting employment in the industrial sector, a matter in which the workers, so influential a section of the janata, have an obvious stake.

The fiscal proposals include a few in which the janata may not be directly interested. One set of them relates to the taxation of capital gains. Mr Patel has made some sensible changes. He has also announced the government's decision to appoint a committee of eminent experts to make recommendations for the simplification and rationalisation of the direct tax laws. His sympathy for the assessee, caught in the maze of income-tax laws and procedures, is well-known. It is also quite serious. His desire to straighten out this maze is therefore logical. Mr Patel, however, must allow that so long as the tax burden itself remains oppressively heavy, tax laws and regulations are bound to be complicated since they have a duty to play hide-and-seek with tax avoidance or evasion. In his budget speech, Mr Patel has said that "high direct taxes have been found to be counter-productive because of the evasion that ensues". Since this

truth is so clearly within his knowledge, it is a pity that he has taken the retrograde step of stepping up the marginal rates of taxation on the higher slabs of income by increasing the surcharge. The reversal of the process of expropriatory taxation was a hard-won victory of the 1976-77 budget. The present Finance minister should have seen the unwisdom of impeding this reform. Since he has

also increased the rates of tax on the higher slabs of wealth, Mr Patel evidently, has decided to place his faith in the possibility of self-effacing patriotism on the part of the entrepreneurial class. Such faith could go hand-in-hand with a passion for egalitarian values and, consequently, his task of producing a janata budget should to that extent have been easier.

No second thoughts

BY TROUNCING the Congress party once again, this time in general elections for ten state assemblies and in three union territories, the electorate has confirmed that its first thoughts on the criminality of the emergency regime of Mrs Gandhi and her accomplices are also its last thoughts. The rout of Congress candidates has once again been on a large scale in Bihar, Haryana, Himachal Pradesh, Madhya Pradesh, Punjab, Rajasthan, Uttar Pradesh and West Bengal. To add to this party's humiliation, its performance in the elections to the assembly has been, in the case of Orissa, poorer than its earlier record in the election to parliament.

As if this is not enough, its current position in Tamil Nadu politics has now been shown in its true light. It can no longer be doubted that the wins it had scored in the state during the general election for parliament was due largely to its alliance with the AIADMK. Lacking those crutches now, it has stumbled to a minor position in the state assembly, thereby disproving the Congress contention that the people of Tamil Nadu are still sold on the image of Mrs Indira Gandhi. This prompts the thought that what has been discovered to be the true situation in Tamil Nadu is also the reality in Karnataka, Andhra Pradesh and Maharashtra. As for Kerala, after the revelations of the Rajan outrage, the electorate in that state should surely be repenting of the choice of government it had made at the assembly elections held in March.

Many lessons, no doubt, are to be drawn from the pattern of results of these assembly elections. The chief of

them could be that the people are determined to have no truck with the Congress party as it continues to be guided or led. They have rejected with contempt the plea made by men such as Mr Y.B. Chavan that the Congress should not be judged by the excesses committed during the emergency. They have driven home to these hypocritical politicians the hard truth that the emergency itself was the mother-excess of them all. It is too much to expect that Mr Chavan or Mr Brahmananda Reddy would go by the logic of this lesson which, clearly, is that both of them should resign their present positions of authority in their party.

Twice within three months the people have made it clear that they have withdrawn their confidence from the Congress. Mr Brahmananda Reddy, as the president of the party and Mr Chavan as the leader of its parliamentary wing, should, if there is at all any honour among politicians, treat this also as public vote of no confidence in them as individual politicians and withdraw from positions of leadership in the organization. This is the greatest service they can do for the rank-and-file of their party. For, it is only after these front-men have abandoned or are forced to abandon their posts can the ordinary members of the Congress assert themselves through a new leadership and throw out finally Mrs Gandhi (and those of her associates) who may still be working behind the scenes for her return to public life. Now that the wishful thinking of the active criminals of the emergency and their silent accomplices that public memory would be short and that they could profit from it has been shown for what it is by the assembly election results, a genuine cleansing of the

Budget Highlights

Greater Stress on Integrated Rural Development

Relief for Pensioners

Rs. 5790 crores for the Central Plan

Non-essential expenditure cut by Rs. 130 crores

Defence Expenditure less by Rs. 56 crores

Agriculture gets 30% of total Plan Outlay

Additional Rs. 40 crores for Drinking Water for Villages

Income-tax Exemption Limit raised to Rs. 10,000

Wealth Tax to Go Up

Investment Allowance Scheme Extended

C.D.S. for Taxpayers to Continue

Duty on Cigarettes Raised

Changes Made in Capital Gains Tax

Tax Concessions for Handloom & Powerloom Sectors

Tax Proposal to Yield Rs. 130 crores

Budget Deficit Reduced to Rs. 72 crores

Congress party has become a condition of its survival as an acceptable political factor. This is a matter of practical interest not only for the rank-and-file of Congress party or a new generation of potential leaders from among them but also for all those citizens of this country who wish to ensure that power is not concentrated in any single political party, however popular or well-meaning it may be at the moment.

The Janata party, for its part, has to make up its mind how effectively it is going to translate into punitive action against the active criminals of the emergency or their accomplices, silent or otherwise, the verdict of "guilty" that the electorate has delivered for a second time. While it may be conceded that the central government has shown in recent weeks an increased earnestness in bringing the guilty to book, it is still exhibiting a deplorable lack of single-mindedness. Mr Shanti Bhushan, for instance, had recently been advertising abroad the political magnanimity of himself and his colleagues

by declaring before American or other audience that the Janata government was not interested in witch-hunting. It is high time that the party's spokesmen had been told that the public is tired of hearing this meaningless phrase repeated. When, as a matter of fact, we do find that we have a witch on our hands, what are we supposed to do with her? Put her on a broomstick and wish her 'happy landing'? The success of Mr Bansilal's son, Mr Surinder Singh, in the Haryana assembly election has underlined the dangerous potential for mischief still lurking in the creators of the emergency and their creatures. It is after all no joke that in Germany a Hitler cult continues to keep itself alive. History teaches us that in politics, as in other walks of life, the battle between good and evil is never fought finally. Hence the need for eternal vigilance, which is the price of liberty and much else that civilised men must value. These assembly elections have shown that the people, having learned this lesson, are in no hurry to forget it. The politicians should not let them down.

Tripathi, was reported to be toying with the idea of lowering fares.

A disconcerting feature of the working of the Railways during the past 12 years has been the accumulation of losses to the tune of Rs 440 crores, the bulk of which was the result of their dismal performance in the three-year period ending in 1975-76. In each one of these years, the working expenses raced ahead of the gross traffic receipts, plunging the Railways into large losses. In these years, the Railways failed miserably both in curbing expenditure and raising revenue. Consequently, these proved to be their darkest years since 1951-52. The working expenses as a percentage of gross traffic receipts rose to above 90 in each one of these years—something which had not happened in any year since 1951-52.

no complacency

It may be stated that between 1951-52 and 1972-73, this ratio had been contained within a ceiling of 85 per cent. Even though the estimates for 1976-77 and 1977-78 show surpluses, this ratio exceeds 85 per cent in each one of these cases pointing to possibilities for further pruning in expenditure or raising the revenue receipts. There is no justification for the Railway ministry becoming complacent simply because the current year's budget indicates a surplus. All-out efforts should be made to scale down expenditure, wherever possible, without hurting efficiency so that a better ratio is maintained between income and expenditure.

Much of the credit for the anticipated improved performance of the Railways during the current year will be due to the growth in freight earnings. While the revenue from goods traffic is placed at Rs 1,294.23 crores in 1976-77 (revised estimate), the corresponding level of revenue during 1977-78 is computed to rise to Rs 1,382.94 crores, recording an increase of Rs 88.71 crores. At the time of presenting the interim budget, the goods traffic was estimated at 217 million tonnes which has now been revised to 220 million tonnes. Earnings from this source can be raised further provided the freight rates are reviewed and the losses incurred on the carrying of certain low-freight commodities are reduced. In fact,

Budget without burden

THE RAILWAY budget for 1977-78 bears the imprint of the operational efficiency achieved in the recent past. All that the new Railway minister, Mr Madhu Dandavate, has done is to extrapolate for the current year, though with relatively less success, the favourable trends witnessed in the operations of this undertaking in 1976-77, hoping that he would be able to keep expenditure under check while making an attempt to increase earnings through improved traffic offerings. In this task he will need the active cooperation of the staff in maintaining, if not improving, the standards of productivity reached during the 19 months of the emergency.

After incurring a deficit of Rs 61.11 crores in 1975-76 (the budget had envisaged a surplus of Rs 23.03 crores), the Railways had budgeted for a surplus of Rs 8.98 crores in 1976-77 which had multiplied itself almost four-fold to Rs 35.67 crores due to the various measures taken to eliminate wastages and to plug leakages of revenue,

Following the same trend, the interim budget for 1977-78 in March this year had estimated a surplus of Rs 26.45 crores, which according to the latest budget, is expected to improve to Rs 32.50 crores. The encouraging increase in traffic offerings in April this year has emboldened the Railway minister to raise the estimated traffic earnings by Rs 20 crores; two-thirds of this increase has been earmarked for expenditure on fuel, repairs and maintenance and staff while the balance has inflated the surplus.

Given the estimated surplus, however modest, the Railway minister has decided to leave freights and fares alone. This has certainly sent a wave of relief throughout the country because the people who are already harassed by the rising prices, are in no mood to stomach any new imposts. It is possible, however, that some may feel disappointed at the absence of relief, especially as Mr Dandavate's predecessor, Mr Kamalapati

the Public Accounts Committee of Parliament has already pleaded for a reappraisal of the structure of freights and fares, and the Railway minister has promised to appoint an expert committee to examine this question.

The passenger earnings in 1976-77 (revised estimate) have shown a rise of Rs 54.18 crores over the budgeted estimate largely due to the sharp fall in ticketless travelling. The corresponding expected increase in the current year is of the order of Rs 25 crores provided there is no relaxation in stringent measures taken to reduce ticketless travelling. The Railway minister has exhibited concern for second class passengers who provide 90 per cent of the passenger earnings and who have been receiving a raw deal in the matter of amenities. He has conceded that the second class coaches in most of the trains are overcrowded and much needs to be done to improve the amenities made available to passengers of this class.

classless trains

Keeping in view the interest of this class of passengers travelling by long-distance trains, he has proposed the introduction of Janata classless trains in the coming years which will provide several passenger amenities. In order to reduce overcrowding in trains, he has directed that, wherever possible, the number of coaches in a train should be raised from 18 to 20. The promised improvement in the provision of such facilities as toilets and water supply in trains, benches on platforms, and double-decker trains to reduce overcrowding are all welcome, but the public has so often been fed on promises that it will naturally choose to suspend judgment.

The reduction in the Railway plan for 1977-78 from Rs 501 crores to Rs 480 crores is in line with the present government's policy of economising expenditure but it would have been much better if the axe had fallen on non-developmental expenditure instead of developmental expenditure. This decision has naturally caused discomfort to the wagon-building industry in Calcutta which was hoping to see an increase in the outlay on the Railway plan. According to the Railway minister, this decision has been taken in

consultation with the ministry of Finance, implying that the scaling down of the outlay is a part of the general scheme of reducing the annual Plan for 1977-78.

While presenting the interim budget in March this year, the Railway minister had agreed to reinstate all employees who had been dismissed or suspended for participating in the May 1974 strike. Almost all of the affected employees have now joined duty. What is more, even those

employees who had been suspended or dismissed during the emergency, are also being re-absorbed. It is claimed by the minister that the staff has demonstrated its renewed interest in keeping the wheels moving fast. It is to be hoped that the re-instated employees in particular and others in general will justify the trust reposed in them by this government by assisting the administration in giving better deal to the public.

The north-south dialogue

THE OUTCOME of the Conference on International Economic Cooperation (CIEC),—popularly known as the north-south dialogue—which concluded in Paris earlier this month, has been characterised by our minister for External Affairs, Mr A.B. Vajpayee, as a modest success. This is not without reason. Attended by the representatives of 27 nations—19 developing and eight western industrialised, the European Economic Community counted as one—the conference could make some headway only on two of the four crucial issues which it discussed. On the two other issues, the differences remained unresolved.

The four issues before the conference were (i) increase in development aid to the developing world on soft terms, (ii) grant of generalised relief to the developing nations in respect of the external debt they have already incurred, (iii) indexation of the changes in the prices of crude oil and raw materials, which form the bulk of exports of the developing countries, to the changes in the prices of manufactures, which these countries have to import from the developed nations, and (iv) making of special arrangements to ameliorate the distress of the poorest countries in the developing world on their balance of payment front. Not that the conference was expected to take clear-cut decisions on these matters. They have to be taken in the concerned world organisations which have been deliberating upon them for a considerable time and also by the countries bilaterally in the case of debt relief. What was expected

from the Paris parleys was arriving at some understanding between the developed and the developing countries so that the decision-making process in the world organisations could be facilitated.

The Paris talks yielded a commitment from the developed countries on the establishment of a billion dollars fund for a special action programme to ameliorate

A despatch on the CIEC from our European correspondent, Mr E. B. Brook, appears in the 'Window on the World' section of this issue.

the distress of the poorest countries in respect of their balance of payment problem and also on the creation of a common fund to stabilise commodity prices. While the developed world was not so much against the former, as is evident from such steps taken in the past under the aegis of the World Bank and the International Monetary Fund as the creation of a special fund out of the sale proceeds of a part of the gold holdings of the IMF, the provision of oil facility, etc, the latter had been resisted persistently by it. Though not opposed in principle to stabilisation of raw material prices, the developed countries favoured a commodity-wise approach to the issue instead of an integrated approach advocated by the developing nations.

The success achieved in respect of the

commodities problem even now, of course, has been very limited for no indexation of the prices of raw materials to those of manufactured products has been agreed to. Further, reports suggest that the common fund likely to be created for this purpose may not be sufficient to meet the needs. But still the very commitment of the developed nations on this score is a step forward.

There was no agreement at Paris on the other two issues, namely, the grant of generalised relief to the developing countries, on the debts already contracted by them and the pricing of crude oil. Although some efforts have been made in the past for making the burden of the external debt of several developing countries less onerous through rescheduling and some liberalisation in the terms of assistance, the experience of such countries as ours is a clear enough indication that the relief granted so far has been just marginal, especially when note is taken of the fact the devaluation of many currencies of the developing countries had enhanced this debt considerably. The repayment liability as well as the interest charges in regard to their external loans account for a substantial portion of the new assistance which many developing nations receive currently. The situation has aggravated further with the terms of trade moving against the developing countries in the recent past.

inflationary tendencies

The stand of the developed countries in regard to oil prices continues to be at significant variance from that of the Organisation of the Petroleum Exporting Countries (OPEC) which insists on indexation of oil prices to the prices of manufactures. The developed world continues to look upon the hike in the prices of oil since 1973 as the primary reason for the accentuation in the global inflationary tendencies and recession in world trade.

There is, of course, some hope of the total quantum of external aid going up thanks to the recent replenishment of the IDA resources, the USA liberalising its assistance policy to some extent and aid being made available by the OPEC. But still there is a lot of leeway to be made up by most of the developed countries in raising the quantum of their aid to at

least 0.7 per cent of their GNP, as agreed to several years ago.

Although the problems facing the developing world necessitate an increase in the quantum of external assistance available to them on soft terms as well as a steady improvement in their terms of trade, the choice obviously has to be the latter to the extent possible. This is because the external debt cannot be contracted by them to an unlimited extent. The enlightened self-interest of the developed world should itself warrant a more sympathetic

attitude on its part to the problems of the developing countries lest the latter are driven to confrontation on the pattern of the OPEC. The sooner this is realised the better it is.

It, of course, is encouraging to note that the developing countries represented at the Paris dialogue did not hold out any threat of confrontation. The dialogue, therefore, ought not be ended and must be carried on. The alternative is only stiffening of the attitude of the two sides to common detriment.

Jute and Janata

MR GOURILAL Mehta's presidential address at the annual general meeting of the Indian Jute Mills Association, held on May 23, dwelt on the fact that the jute industry continued to be confronted with serious disabilities. Mr Mehta referred to the inadequate supply of raw jute, competition from Bangladesh, absence of a long-term purchase policy by the government of India, impact of credit shortage, multipoint sales tax, arbitrary increases in ocean freight and lack of funds for research. These problems have been persisting for the past several years but neither the government of India nor the government of West Bengal seems to be taking a keen and sympathetic interest in the industry's welfare.

For example, year after year, the IJMA has been drawing the government's attention to the urgent need to increase the yield per acre of raw jute. Research has also shown that it is possible to achieve a per acre yield of 4.61 bales for white jute and 5.29 bales for tossa jute. But, said Mr Mehta, "no serious effort has yet been made to increase the per acre yield, which has remained almost static at about 2.77 bales for more than a decade". The carryover stock at the end of the current jute season is expected to be only two lakh bales compared to the normal level of 12 to 15 lakh bales.

A crop of about 90 lakh bales would be needed to meet the requirements of the industry but the average crop over the last 10 years has been of the order of only

63 lakh bales. The recent rainfall in the jute growing areas seems to have improved the prospects of production but the new crop will start coming to the market in volume only from September. The government of India therefore should see to it that the industry does not have to face a squeeze in fibre supply in the next four months.

Mr Mehta highlighted the serious nature of the competition from Bangladesh. He said that Bangladesh was continuing "to wrest away the business from us by undercutting our prices heavily". Besides, he said that the middle east countries were more favourably disposed towards Bangladesh in the matter of placement or orders for jute goods. He suggested that "Government might tackle this matter at the political level if considered advisable". What exactly did the chairman of the IJMA mean when he made this proposal? Can a political approach—whatever it may mean—be of much help when the prices of Dacca's jute goods are substantially lower than those of India? Besides, has the IJMA made serious and systematic efforts to penetrate into the markets of the middle east? Has it equipped itself adequately with up-to-date data about the market conditions in the countries of this region?

The government should assist the industry to reduce its cost of production. Though the scope for it is limited since the raw material and wages constitute over 80 per cent of the industry's total cost,

yet the government should examine in what ways it can help the industry to strengthen its capacity to compete effectively. The government may not agree to the plea for the complete abolition of the excise duty or a significant reduction. But there is no reason why the government cannot arrange for the prompt payment of the money due to the industry on account of the cash subsidy. Mr Mehta revealed that because of some procedural difficulties involved in the submission of claims applications to the Joint Chief Controller of Imports and Exports, mills had not been able to obtain the cash subsidy in respect of exports made through shippers and that till the end of April 1977, the outstanding subsidy amounted to about Rs 10 crores.

tedious procedure

It was observed that in most cases the hessian subsidy had not been received by the mills for nearly a year. Subsidy is paid to help the industry to step up its exports but if the procedure for claiming it remains so tedious and dilatory, its very purpose is defeated. Similarly, the government has been slow in making the payment to the industry for the purchases made by the DGS & D during the period April 1973 to April 1975. About Rs 5 crores remain to be paid to the industry on this account. Mr Mehta has expressed the hope that the outstanding amount will carry interest.

The chairman of the IJMA appealed to the government to reduce the duty levied on the import of machinery and parts required for implementing the industry's programme of modernisation. Out of Rs 250 crores released to the industry through the Industrial Finance Corporation for modernisation, Rs 100 crores have been set apart for the import of machinery and parts. But, according to Mr Mehta, "the prohibitive import duty of 45 per cent levied by the government would make it extremely difficult for the mills to place orders with foreign machinery manufacturers". The availability of bank credit to the industry also continues to be grossly inadequate. Against the industry's current need of Rs 200 crores, the bank finance available to it is only about Rs 100 crores. Mr Mehta remarked that the current cash credit limit for the industry is unrealistic since it was fixed about a decade ago; and

suggested that this limit should be suitably increased and also relaxed according to the requirements of the individual mills.

The present government of India has declared its determination to provide full employment within a period of ten years and to accelerate the development of agriculture. It cannot therefore afford to remain indifferent to the problems of the industry on which one out of every five persons in West Bengal depends for his livelihood.

The industry has contributed Rs 265 crores to the national exchequer in the form of export duty and Rs 220 crores in excise duty. Besides, the industry annually pays to the central and state governments about Rs 16 crores in the form of various taxes. The government therefore should adopt a really helpful policy towards this industry. The government perhaps may not be able to do much in such matters as the reduction in the exorbitant shipping freight rates. But at least in respect of other issues like bank credit, export subsidy and a realistic purchase policy, it should be possible for the government to adopt an imaginative approach so as to increase the industry's competitive capacity. Export of jute goods declined from 9,30,000 tonnes in 1965 to 4,26,000 tonnes in 1976. The government

should realise the significance of figures and take timely steps to improve the industry's viability.

Mr P.C. Sen, MP, chairman of West Bengal unit of the Janata party who inaugurated the annual meeting of the IJMA, advised the industry to give greater attention to research and development. The industry, despite its financial and other difficulties, has already been doing a great deal in these directions. For instance, the Indian Jute Industry Research Association has undertaken projects for a jute backing for high-density narrowgauge tufting, jute decorative fabrics, application of jute cloth in laminates and in reinforcement plastics, and fire retardant hessian for upholstery and draperies.

Significant progress has also been made in producing better quality jute seed of high yielding variety. There is indeed a great scope for intensifying research in this will be possible only with prompt and adequate financial support from the government. Mr P.C. Sen, as former chief minister of West Bengal, is fully aware of the vital role of the jute industry in the economy of the eastern region. He should impress on New Delhi the imperative need to tackle the industry's problems with realism and urgency.

Eastern Economist 30 Years Ago

JUNE 20, 1947

With shortages all round, the earlier expectations that prices in 1946 would decline from their inflationary heights did not materialise. Not to speak of declines, the price line could not even be held at the previous year's levels. On the contrary, there was a continuous and considerable rise in prices during the year, and the inflationary situation greatly deteriorated. There was indeed an element of strangeness about it all. With a substantial decline in Defence expenditure, influencing the prices to move down, and the consequent diversion of materials and resources to meet civilian requirements and the improvement in the import situation, the price level in 1946 yet registered an increase which was comparatively marked than in 1945, which year, it may be noted, contained the last 8 months of war. It is more marked than that of 1944 during which year the inflationary trend could be claimed to have been halted and an element of stability introduced. The price increases in 1946 are comparable only to those that occurred in 1942, although, of course, these were of

a smaller order of magnitude than that of 1942. Thus to cite one instance, the Economic Adviser's Index of Wholesale Prices rose from 188 in Dec. 1942 to 234.8 in Dec. 1943, an increase of 49.9 points. From the latter date of Dec. 1943 the recorded rise was only 14.4 points. Subsequently, during Dec. 1944 to Aug. 45, the index fell by 5 points. In Dec. 1945, it registered a rise of three points. But in October it shot up to record an increase of 34 points over Aug. 45 and 37 points over Dec. 45. Nov. 1946 witnessed further all-round increases: agricultural commodities rose from 321.7 in Oct. 1946 to 352.3 in November. Raw materials fell by 2.5 points. Primary commodities, manufactured articles and the General Index all rose substantially, respective increases being 15.2, 12.2 and 11.1 points. It is only fair to add that these indices are based on control prices and thus are quite out of tune with the prices that have to be paid by the actual buyer in the open market. Even if we leave this out of account the picture that emerges is bleak.

Indira Gandhi and Eastern Economist

—April 15, 1966

I AM afraid that Mrs Indira Gandhi has many lessons of the Nehru years to unlearn. Her assertion before an American audience that only a government broadly sympathetic to the Left could maintain stability in our country smacks of a dogma which she is unwilling to abandon rather than suggest a mature political judgment reached after a realistic re-appraisal of the results of the sins of commission

From "The Moving Finger Writes" of April 15, 1966 and April 22, 1966.

and omission committed in the management of the nation's affairs in the past. An editorial in "The Statesman" (Delhi edition, April 7), after pontifically certifying that "not only what she said is correct; it is good that she took the opportunity of saying it", had the wisdom to add, "but it would also have been helpful if she had indicated how misleading old-fashioned labels can be in the political spectrum of India today". Since I am in entire agreement with the second part of the sentiment expressed by "The Statesman", I am not going to analyse too closely the logical sequence of the passage as a whole. I would rather proceed to point out that since old-fashioned labels could be so misleading, Mrs Gandhi would have done well not to have brought in the issue of the Right or the Left. If any dichotomy of political sentiment or opinion in our country is to be attempted at all, it could only be in the broad terms of a minority believing in the Communist way and a large majority profoundly distrusting it. Mrs Gandhi had thought it necessary to say that a Rightist government could not stay in power for long.

It would be more to the point to recognise that a Leftist government has had no possibility of coming to power at all during all these years.

My submission is that we need not waste time discussing people's hypothetical attitudes. The fact is evident enough that our people—in their broad mass as well as in their essential sections for the most part—are interested basically in social progress and economic advancement. If their aspirations have to be captured and caged in a political concept or working formula for government, the right terminology to appeal to would be the vocabulary of the welfare State, not the slogans of a political Alice-in-Wonderland.

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—April 22, 1966

Mr Inder Malhotra, writing from London in "The Statesman" of April 15 (Delhi Edition), says that, during her brief halt in the British Capital on her way back home from the United States, Mrs Indira Gandhi told Mr Wilson that "she intended to work for normal healthy relations between the two countries and to discourage talk of a special relationship". I grant that this sentiment, attributed to Mrs Gandhi, is bound to be much applauded, but I confess that I do not see much virtue in Mrs Gandhi's reported resolve. Whether we like it or not, our relations with Britain must necessarily be of a quality different from our relations with, say, any of the Scandinavian countries. This is because, apart from past political history, there is a very considerable current British presence in our industry and trade. It would certainly be not less unrealistic to make light of the considerable mutuality of interests between our country and Britain than it would be to seek to find any mystic substance in an Indo-British communion.

This apart, I fail to see why this country should fight shy of the idea of a special relationship with Britain or any other country. On the contrary, it seems to me mere diplomatic wisdom for our government to promote new special relationships as well as maintain existing ones—since, in my understanding of it, a special relationship only means that countries sharing it are supposed to care a little more for each other than they might for the world at large. In this sense, there is surely a special relationship between the United States and our country just as there is a special relationship between the USSR and ourselves. Currently, much thought is rightly being given to the promotion of special relations between Japan and our country, while Mrs Gandhi's recent meeting with President de Gaulle in Paris is being spoken of as having contributed to the process of France and our country coming closer to each other—which after all is only another way of speculating about the development of a special relationship between these two countries. Is it not true also that in many quarters it is firmly believed that there is a special relationship between the UAR and our country or between Yugoslavia and ours? Indeed, it could be argued that, in the pattern of our international relations could be seen nothing but the threads of many special relationships. When this is the case, I see little point in anybody being at pains to denigrate the notion of a special relationship between Britain and our country. As regards Mrs Gandhi's alleged intention that our relations with Britain should be merely "normal" may I say that "normal" is an adjective or "normalise" is a verb which could be employed more appropriately when we talk of the reform of our relations with, say, Israel or the German Democratic Republic?

(Extracts from the Column by V.B.)

CAPITAL'S CORRIDORS

R. C. Ummat

SAIL's profit and domestic sales • Export strategy • Salaya-Viramgam pipeline deal • Investment priorities

THE STEEL Authority of India (SAIL) is expected to yield a pre-tax profit of nearly Rs 65 crores for 1976-77. This will be a record profit for the undertaking and will exceed the previous year's profit of about Rs 42 crores by as much as Rs 23 crores.

The domestic sales of steel are understood to be picking up well. Notwithstanding the fact that the production of saleable steel at the main plants during the first two months of the current financial year was nearly 76,000 tonnes (7.3 per cent) more than the output during the corresponding period last year, the unsold stocks were stated to have gone down to 1.2 million tonnes early this month from approximately 1.5 million tonnes on April 1. Some reduction in stocks undoubtedly has resulted from increased exports, but the major factor contributing to this phenomenon is said to be the pick-up in domestic demand.

production target

It, however, is difficult to say exactly what portion of the increased domestic demand is on account of the pick-up in the economic activity in the country, including the construction activity, as some report suggests that quite a number of industrial units are building up inventories fearing that the current easy supply position of steel may not last very long. The SAIL authorities, of course, are confident that they will be able to meet both the domestic demand and export commitments without difficulty as this year's target for the production of saleable steel has been set at 7.3 million tonnes, as against the last year's target of 6.456

million tonnes which was exceeded by 456,000 tonnes.

This year's target approximates 91 per cent utilisation of the capacity of the integrated plants in terms of saleable steel. This is not beyond accomplishment, for during 1976-77 itself, the capacity utilisation at the five steelworks at Bhilai, Rourkela, Durgapur, Jamshedpur and Burnpur taken together was around 91.9 per cent. The overall capacity utilisation including Bokaro, however, was significantly lower last year, but that was due to the fact that several units of this plant were commissioned into commercial production only in the second half of the last year. A substantial increase is expected in the production at Bokaro this year.

sales promotion

The SAIL authorities, in fact, are anxious to continue their efforts at promoting sales, both in the domestic and export markets, so that not to speak of any addition to the unsold stocks, they should be brought down to around 900,000 tonnes by the end of this year.

The SAIL authorities discount the reports that they intend proposing an increase in the price of prime steel. They point out that no increase has been asked for. Nor is there any intention at present to do so. The cost escalation, they stress, is proposed to be absorbed by them through an increase in overall capacity utilisation at their plants and improvement in productivity. Efforts, it is pointed out, are continuing to attune production to the specific requirements of the consumers in the interest of fostering off-take. The drawing upon of the unsold stocks to some

extent in itself, it is pointed out, will result in quite significant savings as the requirements of SAIL should go down.

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The minister of Commerce, Mr M. Dharia, has given some glimpses of export strategy which the Janata government desires to follow. Addressing year's annual general meeting of Punjab, Haryana and Delhi Chamber of Commerce and Industry here last week, he disclosed that contrary to the previous regime's efforts to export as much as possible all sorts of commodities, weightage would henceforth be given to domestic needs in so far as the export of mass consumption items were concerned. No such consideration, however, was proposed to be given in the case of items of ostentatious and elite consumption.

export drive

Mr Dharia, of course, underscored the need for continuing an intensive export drive in the interest of achieving self-reliance and reducing dependence on external assistance.

The exports of both traditional and non-traditional items, he observed, were proposed to be fostered to the extent possible. This, of course, would be done taking into consideration the needs of the domestic economy so that inflationary tendencies would not get accentuated. In fact, so far as the domestic market was concerned, efforts, he added, would be to bring down the current prices to some extent, instead of merely stabilising them.

The export strategy in respect of traditional items such as jute, cotton piece goods, tea and coffee, Mr Dharia said, would be to increase productivity either through modernisation of manufacturing processes or through increasing the yield of their raw materials. In the case of non-traditional items like engineering goods, chemical products, iron and steel, garments and leather manufactures, the effort would be to maximise production through ensuring essential inputs as well as allowing installation of some balancing equipment to produce goods to the acceptable international standards. In regard to exports of such non-traditional items

marine products, handicraft, processed vegetables and meat items also, the stress would be on raising production so that not only the increasing domestic requirements but also the encouraging export possibilities could be met in ample measure. Specific efforts would also be made to encourage exports of small-scale and cottage industries which were envisaged to be nursed primarily with a view to opening up additional avenues of employment.

Mr Dharia revealed that the government was anxious to raise exports this year to as much Rs 6,000 crores from Rs 4,908 crores last year. The officials and organisations associated with the Commerce ministry, he said, had been asked to work out immediately the detailed commodity and destination breakdowns of this target and to identify the specific difficulties the exporters faced so that the necessary policy measures could be taken to remove the difficulties.

The current financial year is understood to have opened with a promising outlook on the balance of trade front. The first month of the year—April—threw up a surplus trade balance to the extent of as much as Rs 81 crores, as against the last year's total export surplus of approximately Rs 73 crores.

decline in imports

The major factor contributing to the large surplus on trade account in April, however, was a sharp decline in imports compared to the corresponding month of the last year—nearly 22.6 per cent drop to imports worth just Rs 28 crores. Exports went up by about 5.9 per cent to Rs 379 crores.

Since the sharp fall in imports during April resulted to a significant extent from the non-materialisation of edible oil imports to the expected level, the April figures should not suggest that that month's performance is going to be repeated often. The government has already instituted an inquiry into the meagre utilisation of the licences issued for the import of edible oils.

Whereas the imports of foodgrains and various other items, particularly steel, should be very limited this year owing to the comfortable position obtainable in the country at present, the recent liberalisation

of the import policy should result in increased imports over the coming months.

The balance of payments position this year, of course, is expected to remain encouraging primarily thanks to the increasing remittances by Indians abroad. On account of this as well as the balance of trade being in our favour and there being some improvement in exchange earnings on other accounts, the foreign exchange assets of the country on May 20 amounted to as much as Rs 3431.67 crores, recording approximately 100 per cent increase over the level 12 months earlier. They went up by Rs 393.88 crores in April, Rs 84.54 crores in the week ending May 6, Rs 75.72 crores in the subsequent week and Rs 71.23 crores during the week ending May 20.

* *

The clarifications provided by the chairman of the Indian Oil Corporation, Mr C.R. Das Gupta, about the award of the Salaya-Viramgam pipeline construction contract to Dodsai, an Indian concern, in preference to the US company, Hood Corporation, even though ostensibly the tender of the latter was lower than that of the former by as much as Rs 4.5 crores, should set at rest all controversy about this deal.

Mr Das Gupta explained to newsmen here last week that the detailed discussions with the two bidders subsequent to the receipt of their tenders revealed that they had quoted on different parameters. Reduced to common parameters, the Dodsai bid, in fact, was lower by approximately Rs two crores.

The difference in parameters, Mr Das Gupta observed, related to income-tax and custom duty liability, cost of rock cutting and escalation provision. Taking these into consideration, the Dodsai offer, he said, came to Rs 13.29 crores and that of the Hood Corporation to Rs 15.46 crores.

The above controversy underlines the need for the Bureau of Public Undertakings bestowing some thought on the guidelines for the issue of international tenders by the public sector enterprises to the effect of specifying in detail the requirements to be met by the tenderers. This will obviate the so-called character assassi-

nation of the public sector management about which the IOC chairman bemoaned. The public sector undertakings also need to take the first opportunity to clarify the position in case they depart from the general rule of awarding contracts to the lowest bidders. The public is as interested in this aspect of their operations as a shareholder is in a private sector enterprise. Many misgivings arise in the public mind because of inadequate communication from the managements of the public sector enterprises even though the information sought is not of the classified nature. The performance of the public sector in industry, indeed, has shown a marked improvement in the recent past, barring, of course, in the case of some units. The managements of these enterprises, therefore, ought not to be unduly reserved. They have to be candid about their operations.

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Presenting the 1976-77 economic survey to parliament this week, the minister of Finance, Mr H.M. Patel, stressed the need for increasing investment in agriculture and the small-scale industrial sector with a view to fostering employment in the country. He also called for greater involvement of the people in the planning process and the implementation of the planned programme. Expressing serious concern over the behaviour of prices, which during the 12 months to March 31 rose by 11.6 per cent, due, among other things, to 17.1 per cent expansion in money supply, he emphasised that not only had there to be greater financial discipline and restraint on credit policy, but also the investment needed for the growth of the economy had to be financed from sources mobilised from the public. The national income in real terms last year, Mr Patel said, grew by less than two per cent, as against 8.5 per cent in the previous year, because of five to six per cent decline in agricultural production from 15.6 per cent in 1975-76, even though the industrial growth around 10 per cent was slightly higher. The external trade last year, he observed, yielded a surplus of Rs 72 crores thanks to increase in exports and decline in imports. The large remittances by Indians abroad was another encouraging feature last year.

Romesh Chandra Dutt : path-breaker in economic thinking

Dr S. K. Ray

Romesh Chandra Dutt's economic thought went a long way in focussing attention on the inequity foisted upon India by the British rulers. His thinking showed great insight, erudition and an exquisite sense of proportion. His perspicacity can be gauged from the fact that even though in Dutt's own time his theory that foreign capital on favourable terms was beneficial and should be welcome was ridiculed, it has been vindicated by the policy on foreign investment followed by Independent India.

THE WRITINGS in the nineteenth century India, in the framework of the political movement of the time, or as ancillary to it, had a clearly discernible economic content, in the sense that the motivation was to serve the cause of the economic emancipation of a people in bondage.

The British government in the nineteenth century brought to bear on their meandering economic policies an application of the unduly doctrinaire tenets of political economy, as formulated by them in the popular English text-books of classical content. The purely axiomatic and hypothetical character of the classical theories of political economy was conveniently glossed over. The presumptions as to the environments were also forgotten in deliberate econo-political manoeuvres.

suit-the-purpose principle

Friedrich List in Germany came down heavily on such suit-the-purpose application of economic principles. It was particularly against the cosmopolitan principle in the economic system that he protested, and against the absolute doctrine of free trade, which was in harmony with that principle. He gave prominence to the national idea in economic philosophy, and insisted on the special requirements of each nation according to its circumstances and especially to the degree of its development.

List was not alone in pointing out the fallacy in presuming that classical economic laws were universal in their application. Apart from many important continental economic theorists, there were a few in Britain even, Alfred Butler for one, who were emphatically protesting against such

a dogmatic and colonial application of the principles of economic law.

Criticism of the economic policies of the government during the greater part of the nineteenth century in India was vehement. The motivation was however principally political. The texture of such criticism did not bring out the economic fallacies in the enunciation and consideration of the principles of political economy. It was here that Romesh Chandra Dutt stepped in. In fact, it will not be incorrect to conclude, after a research on the works of both List and Dutt, the Romesh Chandra

POINT OF VIEW

had accepted List as his mentor. In the evolution of Indian economic and econo-political thoughts, Dutt's contribution was no less momentous than List's contribution to the formulation of political economy in Germany in his time.

Compared to his compeers, Romesh Chandra had two inherent advantages: his accustomed erudition and an almost unsurpassed brilliance in the use of the English language. Both of these he brought to bear on the interpretation of his economic thoughts and on spotlighting the hollowness of the economic policies of the government of India.

Because free trade was useful for England, the government emphasised, it

must be good for India also. Because the principles of *laissez faire* suited the conditions of the British economy, the government imposed it on the Indian economy and had the gumption to postulate that it would be equally beneficial to India, intentionally skipping over the fact of the non-existence or only marginal existence of the infrastructure of private enterprise, already being annihilated systematically by the British as an integral part of their establishment of political suzerainty.

Dutt went about with remarkable aplomb to expose the incorrectness of these policies. And it is in this context that he issued his historic *Open Letter to Lord Curzon*.

pioneering works

Romesh Chandra Dutt took upon himself the national responsibility of proving that many of the assumptions at the back of all dogmatic treatment of the subject of political economy were inapplicable to India and also that public policy, if it was really to further the economic development of the country, could not afford to ignore the peculiarities of the Indian context. Hitting hard at the policies of the British government aimed at the systematic liquidation of the Indian industrial aspirations to convert the sub-continent into an easy and open market for the British manufactures, Dutt went eloquent in his pioneering works of authority on Indian economic thoughts:

"India in the eighteenth century was a great manufacturing as well as a great agricultural country, and the Indian handlooms supplied the markets of Asia and Europe. The East India Company and the British parliament, following the selfish commercial policies of a hundred years ago, discouraged Indian manufactures in the early years of British rule in order to encourage the rising manufactures of England . . .

"Their fixed policy pursued during the last decade of the eighteenth century and

the first decades of the nineteenth, was to make India subservient to the industries of Great Britain, and to make the Indian people grow raw produce only, in order to supply material for the looms and many factories of Great Britain. This policy was pursued with unwavering resolution and fatal success." (R.C. Dutt; *Economic History of India under Early British Rule*).

In his exposition of the wanton disregard of the realistic tenets of the Indian economic condition by the government, what Dutt wrote became the plinth of our economic thoughts at that time. As the assumptions, (Dutt was referring to assumptions like enlightened individualism, completely free competition, mobility of labour and capital etc), did not hold good of even the most advanced societies, it was obvious that, in societies such as ours, they were chiefly conspicuous by their absence.

lack of aptitude

There was neither the desire nor the aptitude for free and unlimited competition except within certain predetermined groups or grooves. Neither capital nor labour was mobile, nor entrepreneurship intelligent enough to shift from place to place. Wages and profits were fixed and not elastic and responsive to change of circumstances.

"Population followed its own law, being cut down by disease and famine, while production was static and stagnant, and the bumper harvest of one year was needed to provide against the uncertainties of alternate bad seasons and two consecutive bad crops often brought about a famine." In a society so constituted, the tendencies assumed as axiomatic were not only inoperative, but were actually deflected from their proper direction.

At the present time, when the principles of economic laws of money, profits, surplus and liquidity preference, as enunciated by Keynes and the post-Keynesian economists, are applicable in their respective spheres to both the continental and extra-continental countries such as India, the economic concepts of Romesh Chandra Dutt have a look of comparative exaggeration. If one goes through the stimulating works of Dutt, one would naturally realise

that there was really a played-up emphasis on the inapplicability of the classical economic laws, and that this emphasis was deliberate.

The classical economic principles very much suited the pursuits of the government, from Dalhousie to Curzon, in the background of what came to be known as imperial preference. Dutt's philosophy, which postulated that it was mainly the responsibility of the government to sponsor and accelerate industrial and agronomic development in the country, was diametrically opposite to what the government practised; and in order to achieve his points the political overtones in Dutt's philosophy are understandable.

Nothing illustrates this situation more than the policy pursued by the British government at that time for an establishment of railway network. Rail transport was necessary for economic development. But the government elected to do this in preference to investments in irrigation and agriculture. What was worse, in accordance with the notorious Dalhousie plan, contracts were entered into with eight companies between 1854 and 1860 for constructing and managing railways in different parts of India under the guarantee system.

a great drain

The system, prompted more from the need for consolidation of the British raj in India than its economic development, proved to be a great drain on the resources of the state and a burden on the taxpayer in India, "for the companies were unable to earn their interest and called upon the government to make good the deficiency." The deficit on the railway budget amounted to Rs 1,66,50,000 by 1869. This was attacked by several critics like Lord Lawrence, who in his Minute in 1867 had strongly criticised the guarantee system. But R.C. Dutt, more than anybody else, vehemently condemned the duplicity in the economic policy of the government. (R.C. Dutt: *The Economic History of India in the Victorian Age*).

To a student of Indian economic development, the concept of imperial preference fostered by the British rulers in India looms large as an inglorious concept where

licences, priorities, economic assistance in shipping and transport, in short even the economic vehicle, was geared to the responsibility of the government.

The country was thus being used for export of raw material to aid industrialisation of Britain and also as a market for dumping finished products of the British industry. As a result, while industrialisation could not take any meaningful steps, agriculture was falling to pieces. Even the tenancy laws and the settlement system degenerated to produce a multitude of uneconomic holdings controlled by pockets of vested *taluqdari* interests, and there was no effort towards modernisation of agriculture and cottage industries.

theory of public surplus

He thus developed the theory of public surplus in India and was all the time urging the government to set the pace for industrialisation in big cities, modernise the tenancy and settlement systems and rationalise the agricultural economy.

Dutt's *Open Letter to Lord Curzon* was not merely an indictment on the imperialist economic policies of the government but also an incisive economic analysis of the British policies in India in disregard of the economic aspirations and well-being of the people. Finally it was a manifesto of economic policies which he continually urged the government to pursue. For the lucidity and brilliance of language and exposition, and for clarity and vision, Dutt's *Open Letter* requires to be studied in depth by all scholars of Indian economic thought.

Another remarkable contribution by Dutt to the debate on public issues of economic significance concerned the arrangement under which 'home charges' and 'imperial levies' were being repatriated to Britain in lieu of the so-called security and governance provided by the British in India. It was being urged that, after all, England had conferred on India the 'inestimable boon' of peace and had made possible an orderly development of the country in all directions and that, therefore, India's losses due to the 'drain' were nothing when weighed against these blessings. On this plea, as Gokhale pointed out before the Webby Commission, it

would have been possible to justify every kind of government extravagance and unfairness. Dutt's condemnation of this theory was relentless throughout.

Dutt would not allow to go unchallenged such deceit in the formulation of public policy for economic development. 'The advantages to India of the British connection, such as they were, or vice versa, were not capable of being precisely measured'. They were, therefore, out of place in a discussion occupied with concrete and calculable items, just as much as the incalculable, though non-the-less real, advantages which England derived from India.

His criticism was so vehement that it made Lord Curzon to sit up and join issues through a half-hearted exposition of his own. Curzon admitted that his data were not incontrovertible. He also admitted that the advance in economic position revealed by his calculations was not in itself very 'brilliant or gratifying'. But at the same time, Curzon pleaded, they showed that the movement of the economy was in a forward and not backward direction. (*A Statement of Economic Policy*; Lord Curzon of Kedleston).

academic controversy

Romesh Chandra considered the whole controversy as entirely academic and a deliberate attempt to shift emphasis on the part of the government from the down-to-earth factors of economic development. It can at best be said that the analysis undertaken in connection with the 'drain' theory did help to indicate various directions of urgent reform, and pointed to the existence of a number of real grievances. It did not, however, furnish anything like a plausible explanation of Indian poverty.

The first Indian thinker to see the necessity of emphasizing many other more important causes was Romesh Chandra Dutt, who was a pathbreaker in Indian economic thinking. Later writers did not always show Dutt's insight and erudition and his exquisite sense of proportion.

Two particular streams of thought can be spotlighted here. First was his views on the tenancy laws. "The development

of subinfeudation, owing to the margin between the fixed land revenue and the economic rent of land, and the growth of a long chain of middlemen, have severed the connection between the zamindars and the ryots and have defeated the intention of Cornwallis to establish a landlord and tenant system in Bengal on the British model"—The land is nobody's concern—The responsibility for agricultural welfare cannot be fixed at any particular link in the chain between the zamindar and the actual cultivator." (*Report of the Land Revenue Commission, Bengal*, Volume I, para. 78).

visionary outlook

The evil culminated, according to Dutt, in fragmentation of land holdings. He therefore vigorously protested against the lukewarm tenancy system pursued by the government and formulated a bold scheme of ryotwari bandobast in his works, many ideas from which were grudgingly borrowed in later years by the government.

Dutt had a visionary's outlook on foreign capital, and regarded the policy of raising capital abroad to finance national economic development as sound and well-advised (R.C. Dutt's concept on foreign investment was elaborated in the *Report of the External Capital Committee*). Dutt's concept was precisely summarised by Dr Slater, "as no foreign control enters into the system, the main matters for consideration are—(i) can a new asset be created by means of an external loan which will yield a net annual return, directly or indirectly, to the people of India, exceeding the stipulated rate of interest; and (ii) can the money be borrowed abroad on the whole to greater advantage than in India? If both of these questions are answered in the affirmative obviously the use of external capital is advantageous".

Even though in Dutt's own period these ideas were not infrequently criticised as an open invitation (a pun with his open letter) to foreign economic subservience, time has established the boldness as also the fundamental correctness of his far-sighted ideas.

All too often industry is wanted pri-

marily for nationalistic reasons—to show that a country is 'modern' and that need not depend on others for the goods it wants to produce indigenously. Such thinking leads to a number of unsound prestige projects.

important role

National pride frequently tends to create emotional and psychological barriers to the entry of foreign capital and knowledge, even when it may be obvious, on purely economic grounds, that borrowed capital and technology have a necessary role to play, particularly in the first phases of development.

These two factors had played an important but controversial role in our economic thoughts and in the formulation of our economic policies. It was in this context that the historic Nehru resolution on foreign investment was announced in the parliament of independent India. As India has lived through with enough participation in foreign capital and experience in her industrial development during the first four Plan periods.

The effectiveness of Dutt's postulates should be judged against two considerations.

First, he did provide a very effective economic forum to the developing political movement of the country. The concepts of Romesh Chandra Dutt were taken up in the political manifesto of the Indian National Congress.

Second, even in these early days of political movement, Dutt's exposition of economic philosophy compelled the government to come down to brass-tacks in matters of development and principles of government.

Such economic measures were increasingly adopted as led to the industrialisation of the country in phases, and, as a result, towards revision of the ryotwari system and modernisation of agricultural methods. The measures taken might have been only marginal, but they did directly set the pace for things to come in the next few decades.

Measuring profitability through commonsize statement : aluminium industry

Dr N. P. Agarwal

The author, who is lecturer in the Department of Accountancy and Business Statistics in the University of Rajasthan, has measured the commonsize profit and loss statement of four aluminium companies in the private sector from 1963-64 to 1973-74 and found that controlled selling price of aluminium accompanied by increasing prices of some raw materials and power shortage were mainly responsible for a decline in profitability in the industry.

ALUMINIUM industry of India comprises five units. Four units, viz. Aluminium Corporation of India, Indian Aluminium Company Ltd, Hindustan Aluminium Corporation Ltd and Madras Aluminium Company Ltd, are in the private sector and one, viz. Bharat Aluminium Company Ltd, is in the public sector. Up to 1973-74 only those units which were in the private sector were functioning. Hence profitability of these four companies in private sector has been studied in this article.

The present study covers a period of 11 years from 1963-64 to 1973-74. In the case of Madras Aluminium Company Ltd, (Alco), the period is from 1965-66 to 1973-74 because this company started functioning from the year 1965-66.

motivating force

The principal motivating force behind conducting a business is profit. "Perhaps the most important reason for keeping accounts, as far as the management of the business is concerned, is that the information contained in them provides the means of measuring the progress of the business; of 'testing its pulse'; and of indicating when and where remedial action, if necessary, shall be taken."¹ Modern management is engaged in the task of maximising profits. The efficiency of management is measured by the profitability of the business; the greater the profitability the more the efficiency.

The word 'profitability' is composed of two words 'profit' and 'ability'. The word profit has been defined in a number of ways. Actually the meaning of profit

differs according to the use and purpose of the figure. For accounting purposes the total expenses for a period are deducted from the total revenues for that period to measure the profit for the period. The term ability reflects the power of the enterprise to earn the profit.

earning power

This ability is also referred to as 'earning power' or 'operating performance' of the concerned investment. "The word 'profitability' may be defined as the ability of a given investment to earn a return from its use."² The state of profitability is variable as the temperature and humidity of a day. The determination of profitability by an accountant or analyst can even be linked to temperature reading and study of humidity by a meteorologist. The present weather of a day is recorded so that future prospect can be forecast.

The commonsize profit and loss statements show the percentage of profit earned or loss suffered to sales along with the percentage of individual cost or expense item to sales. The income statement commonsize percentages are more in common use. The analysis of income statement percentages is used in connection with studies of revenue, cost and expenses. "Less extensive use is made of balance sheet commonsize percentages. The reason for the greater use of commonsize percentages for income statement items is the close relationship of sales, cost of goods sold and operating expenses. In other words, all of the items on the income statement through the operating

income figure relate to sales and to current operations."³

In the present study, condensed profit and loss accounts for the aluminium industry as a whole and for individual companies have been prepared and the absolute rupee amounts have been expressed in lakhs upto two decimal places. The figure of sales has been taken equal to hundred and percentages of each item of profit and loss account to sales have been calculated up to one decimal place. The commonsize percentages of profit and loss account show not only the position relating to profitability but also indicate items of cost responsible for increase or decrease in the percentage of profit. It is a scientific study of profitability because each item of profit and loss account has got the relationship of cause and effect.

operating profits

The commonsize statement of profit and loss account of aluminium industry in India as a whole as given in Table I during the period of study from 1963-64 to 1973-74, shows that the cost of goods sold consumed an increasing percentage of sales from 69.2 per cent in 1964-65 to 93.9 per cent in 1973-74, which has resulted in a decreasing percentage of operating profits from 30.8 per cent in 1964-65 to 6.1 per cent in 1973-74. The controlled selling prices of aluminium accompanied by increasing prices of some essential raw materials and power shortage were the main reasons of decline in profitability. The non-operating income has yielded a surplus of 0.3 per cent over non-operating expenses during the period of study. The percentage of interest paid fluctuated from year to year but on the whole it was towards decline as it was 3.8 in 1973-74 and 3.3 in 1971-72 and 1972-73 as compared to 5.1 in 1966-67. The percentage of provision for taxation was towards decline.

It has been noticed that during later

years some of the aluminium companies under study suffered operating losses and no provision was made for taxation. The decreasing amount of profit, accompanied by larger amount of sales also resulted in decreasing percentage of provision for taxation as lesser amount of provision for taxation was required due to lower amount of profit. The percentage of net profit fluctuated from 1.1 in 1973-74 to 26.5 in 1964-65. During later years it was towards a decline. As a result of the above situation the percentage of dividends paid fluctuated, but from 1969-70 it was towards decline and was 2.6 in 1973-74 as against 5.4 in 1968-69. A small percentage has been recorded as capital profits while in some of the years some portion of the reserves was also capitalised. On the whole the percentage of retained earnings fluctuated from year to year from 0.2 in 1963-64 to 23.8 in 1964-65 and during 1972-73 and 1973-74 it was negative.

In the Aluminium Corporation of India (Alcoi)⁴ during the period of study the

cost of goods sold consumed an increasing percentage of sales from 85.7 in 1963-64 to 119.9 in 1973-74 except during the years 1965-66, 1966-67 and 1967-68 in which the percentage decreased as compared to 1964-65. The increasing percentage of cost of goods sold resulted in decreasing percentage of operating profits and in later years from 1970-71 it resulted in operating losses. The main problem faced by this company was of labour trouble and shortage of power. The percentage of non-operating income has earned a small surplus over non-operating expenses during the whole period of the study. The percentage of interest paid fluctuated from year to year, but it was very high during 1973-74 being 10.9 as compared to 5.2 in 1972-73 and 2.7 in 1967-68. The percentage of dividends paid fluctuated from year to year and during 1971-72 to 1973-74 no dividend was declared. During 1963-64 and 1971-72 the percentage of reserves capitalised work out to 6.8 and 10.3 respectively. On the whole this company has faced

an adverse situation and during the last four years it suffered heavy losses.

In the Indian Aluminium Co Ltd (Indal)⁵ during the period of study the percentage of cost of goods sold to sales varied from 68.6 in 1964-65 to 88.1 in 1973-74, as a result of which the percentage of operating profit varied from 11.9 in 1973-74 to 31.4 in 1964-65. The range of variation of percentage of cost of goods sold was lower in this company as compared to Alcoi and Hindalco. The percentage of non-operating income yielded a positive surplus over the percentage of non-operating expenses during the whole period of the study, while the percentage of interest paid varied from 1.9 in 1967-68 to 4.2 in 1969-70. The percentage of net profit varied from 4.8 in 1973-74 to 17.6 in 1965-66. The decreasing trend specially during 1972-73 and 1973-74 was the result of various problems faced by the company like power cut, controlled selling prices and increasing prices of some of the essential raw materials. The dividend paid absorbed from 3.9 per cent in

TABLE I
Aluminium Industry in India: Condensed Profit and Loss Account (Consolidated)
Including Commonsize Percentages

(In per cent)

Particulars	1963-64	1964-65	1965-66	1966-67	1967-68	1968-69	1969-70	1970-71	1971-72	1972-73	1973-74
Sales	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Less cost of goods sold	79.4	69.2	71.5	76.9	80.0	84.1	83.0	84.1	85.6	88.3	93.9
Operating profit	20.6	30.8	28.5	23.1	20.0	15.9	17.0	15.9	14.4	11.7	6.1
Add non-operating income	0.8	7.5	0.8	1.7	0.9	2.4	3.0	2.7	1.3	1.4	1.3
	21.4	38.3	29.3	24.8	20.9	18.3	20.0	18.6	15.7	13.1	7.4
Less non-operating expenses	0.5	0.4	0.9	1.8	0.9	1.1	1.0	0.5	0.5	0.6	0.3
Profit before tax and interest	20.9	37.9	28.4	23.0	20.0	17.2	19.0	18.1	15.2	12.5	7.1
Less interest	4.6	3.1	4.1	5.1	4.6	4.9	4.3	3.5	3.3	3.3	3.8
Profit before tax	16.3	34.8	24.3	17.9	15.4	12.3	14.7	14.6	11.9	9.2	3.3
Less provision for taxation	8.2	8.3	5.4	3.0	4.5	2.9	0.7	—	1.7	3.4	2.2
Net profit	8.1	26.5	18.9	14.9	10.9	9.4	14.0	14.6	10.2	5.8	1.1
Less dividends	4.2	5.3	7.3	5.4	4.0	5.4	4.3	3.6	3.7	3.3	2.6
	3.9	21.2	11.6	9.5	6.9	4.0	9.7	11.0	6.5	2.5	—1.5
Add capital profits	1.7	2.6	0.1	—	—	0.6	—	—	—	—	0.1
	5.6	23.8	11.7	9.5	6.9	4.6	9.7	11.0	6.5	2.5	—1.4
Less reserves capitalised	5.4	—	—	—	—	—	—	—	0.6	6.2	—
Increase in retained earnings	0.2	23.8	11.7	9.5	6.9	4.6	9.7	11.0	5.9	—3.7	—1.4

Note: Commonsize percentages, taking sales for the respective years equal to hundred.

TABLE II
Aluminium Corporation of India Limited: Condensed Profit and Loss Account (Consolidated) including Commonsize Percentages
(In per cent)

Particulars	1963-64	1964-65	1965-66	1966-67	1967-68	1968-69	1969-70	1970-71	1971-72	1972-73	1973-
Sales	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Less cost of goods sold	85.7	87.7	82.6	83.8	86.4	90.1	95.1	107.2	101.5	108.8	119.9
Operating profit	14.3	12.3	17.4	16.2	13.6	9.9	4.9	-7.2	-1.5	-8.8	-19.9
Add non-operating income	0.6	0.5	0.4	0.5	0.4	1.6	2.1	0.9	0.6	0.4	2.7
	14.9	12.8	17.8	16.7	14.0	11.5	7.0	-6.3	-0.9	-8.4	-17.2
Less non-operating expenses	—	0.3	0.2	0.1	0.1	0.2	—	—	—	—	1.7
Profit before tax and interest	14.9	12.5	17.6	16.6	13.9	11.3	7.0	-6.3	-0.9	-8.4	-18.9
Less interest	3.3	4.5	3.9	3.3	2.7	3.1	5.7	3.6	3.9	5.2	10.9
Profit before tax	11.6	8.0	13.7	13.3	11.2	8.2	1.3	-9.9	-4.8	-13.6	-29.8
Less provision for taxation	0.4	—	—	—	—	—	—	—	—	—	—
Net profit	11.2	8.0	13.7	13.3	11.2	8.2	1.3	-9.9	-4.8	-13.6	-29.8
Less dividends	3.7	3.4	4.0	4.4	3.7	3.1	1.5	2.0	—	—	—
	7.5	4.6	9.7	8.9	7.5	5.1	-0.2	-11.9	-4.8	-13.6	-29.8
Add capital profits	—	—	—	—	—	—	—	—	—	—	—
	7.5	4.6	9.7	8.9	7.5	5.1	-0.2	-11.9	-4.8	-13.6	-29.8
Less reserves capitalised	6.8	—	—	—	—	—	—	—	10.3	—	—
Increase in retained earnings	0.7	4.6	9.7	8.9	7.5	5.1	-0.2	-11.9	-15.1	-13.6	-29.8

Note: Commonsize percentages, taking sales for the respective years equal to hundred.

TABLE III
Indian Aluminium Company Limited: Condensed Profit and Loss Account (Consolidated) including Commonsize Percentages
(In per cent)

Particulars	1963-64	1964-65	1965-66	1966-67	1967-68	1968-69	1969-70	1970-71	1971-72	1972-73	1973-74
Sales	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Less cost of goods sold	72.3	68.8	70.5	78.4	77.6	81.4	82.5	85.8	80.4	83.2	88.1
Operating profit	27.7	31.4	29.5	21.6	22.4	18.6	17.5	14.2	19.6	16.8	18.9
Add non-operating income	1.1	3.4	0.8	2.7	1.1	2.3	3.0	1.9	1.0	1.2	1.0
	28.8	34.8	30.3	24.3	23.5	20.9	20.5	16.1	20.6	18.0	12.9
Less non-operating expenses	0.4	—	—	0.2	—	1.5	11.2	—	—	0.5	0.1
Profit before tax and interest	28.4	34.8	30.3	24.1	23.5	19.4	19.3	16.1	20.6	17.5	12.8
Less interest	3.2	2.2	2.3	2.8	1.9	2.9	4.2	4.0	3.6	3.9	3.9
Profit before tax	25.2	32.6	28.0	21.3	21.6	16.5	15.1	12.1	17.0	13.6	8.9
Less provision for taxation	14.0	15.7	10.4	8.1	10.9	8.2	1.8	—	3.7	5.5	4.1
Net profit	11.2	16.9	17.6	13.2	10.7	8.3	13.3	12.1	13.3	8.1	4.8
Less dividends	6.4	7.1	6.4	6.5	5.2	6.6	5.3	3.9	4.0	4.2	4.2
	4.8	9.8	11.2	6.7	5.5	1.7	8.0	8.2	9.3	3.9	0.6
Add capital profits	2.8	4.9	—	—	—	1.7	—	—	—	—	—
	7.6	14.7	11.2	6.7	5.5	3.4	8.0	8.2	9.3	3.9	0.6
Less reserves capitalised	7.9	—	—	—	—	—	—	—	—	10.0	—
Increase in retained earnings	-0.3	14.7	11.2	6.7	5.5	3.4	8.0	8.2	9.3	-6.1	0.6

Note: Commonsize percentages, taking sales for the respective years equal to hundred.

1970-71 to 7.1 per cent in 1964-65. During some years there was capital profit while in others part of reserve was also capitalised. During 1963-64 and 1972-73 the percentage of retained earnings was negative while during other years it was positive and varied from 0.6 in 1973-74 to 14.7 in 1964-65. On the whole it was decreasing due to adverse situations faced by the company, specially during the later years.

The commonsize profit and loss statement of Hindustan Aluminium Corporation Ltd (Hindalco) as shown in Table IV, reveals that during the period under study from 1963-64 to 1973-74, the cost of goods sold absorbed fluctuating percentage of sales which varied from 64.2 in 1964-65 to 100.6 in 1973-74. The percentage of goods sold indicated increasing trend during 1965-66 to 1973-74 except in 1969-70 and 1970-71. This reflects an adverse situation because successively larger proportion of sales was absorbed by cost of goods sold. This adverse situation resulted in operating loss during 1973-74 of

0.6 per cent, while the percentage of operating profit was 35.8 in 1964-65 and 33.5 in 1965-66. Generally the percentage of non-operating income has yielded a positive surplus over the percentage of non-operating expenses except during 1963-64, 1965-66, 1966-67 and 1967-68. The increase in prices of some of essential raw materials, controlled selling prices of aluminium and its products, short supply of power and increased rates charged for power supply are the factors which resulted in under-utilisation of capacity causing operating losses during 1973-74. The percentage of interest paid varied from 2.0 in 1972-73 to 8.1 in 1963-64, from 1968-69 the percentage of interest paid registered a declining trend except in 1973-74, which shows that the reliance on borrowed funds was reduced. The percentage of provision for taxation was very low being 0.2, 0.1, 0.1 and 1.9 in 1963-64, 1964-65, 1965-66, and 1972-73. In other years no provision for taxation was made. Dividends absorbed 1.0 per cent in 1973-74 to 10.5 per cent in 1965-66 of sales

during the period of study. During later years the percentage was lower as compared to earlier years as sales were having an increasing tendency. The capital profits earned constituted a very small percentage of sales varying from 0.1 to 0.2. The percentage of retained earnings was towards decline except during 1969-70 and 1970-71 and it was negative during 1972-73 and 1973-74, in the former year due to capitalisation of reserves and in the latter year due to net loss suffered.

In the case of Madras Aluminium Co Ltd (Malco), commonsize income statement as shown in Table V, reveals that during the period of study from 1965-66 to 1973-74, the cost of goods sold absorbed a fluctuating percentage of sales which varied from 76.9 in 1966-67 to 85.7 in 1972-73, the range of variation of percentage of cost of goods sold in this company was lower as compared to all other companies under study. The percentage of operating profit which varied from 14.3 in 1972-73 to 23.1 in 1966-67 was also higher in this company specially during

TABLE IV
Hindustan Aluminium Corporation Limited: Condensed Profit and Loss Account (Consolidated)
Including Commonsized Percentages

(In per cent)											
Particulars	1963-64	1964-65	1965-66	1966-67	1967-68	1968-69	1969-70	1970-71	1971-72	1972-73	1973-74
Sales	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Less cost of goods sold	90.8	64.2	66.5	74.0	80.9	85.7	83.0	80.9	89.2	92.0	100.6
Operating profit	9.2	35.8	33.5	26.0	19.1	14.3	17.0	19.1	10.8	8.0	-0.6
Add non-operating income	0.4	15.7	0.7	1.5	0.8	2.6	3.1	3.5	1.5	1.6	1.5
	9.6	51.5	34.2	27.5	19.9	16.9	20.1	22.6	12.3	9.6	0.9
Less Non-operating expenses	0.9	0.9	2.0	3.0	1.7	0.8	0.9	0.8	1.0	0.7	0.2
Profit before tax and interest	8.7	50.6	32.2	24.5	18.2	16.1	19.2	21.8	11.3	8.9	0.7
Less interest	8.1	3.9	5.8	5.8	6.9	6.2	3.6	2.5	2.4	2.0	2.2
Profit before tax	0.6	46.7	26.4	18.7	11.3	9.9	15.6	19.3	8.9	6.9	-1.5
Less provision for taxation	0.2	0.1	0.1	—	—	—	—	—	—	1.9	—
Net profit	0.4	46.6	26.3	18.7	11.3	9.9	15.6	19.3	8.9	5.0	-1.5
Less dividends	—	3.4	10.5	4.7	4.0	3.7	3.1	2.9	3.0	3.3	1.4
	0.4	43.2	15.8	14.0	7.3	6.2	12.5	16.4	5.9	1.7	-2.5
Add capital profits	0.2	0.1	0.1	—	0.1	0.1	0.1	—	0.1	—	0.2
	0.6	43.3	15.9	14.0	7.4	6.3	12.6	16.4	6.0	1.7	-2.3
Less reserves capitalised	—	—	—	—	—	—	—	—	—	3.8	—
Increase in retained earnings	0.6	43.3	15.9	14.0	7.4	6.3	12.6	16.4	6.0	-2.1	-2.3

Note : Commonsized percentages, taking sales for the respective years equal to hundred.

ing later years as compared to other companies. The percentage of non-operating income varied from 0.6 in 1966-67 to 3.0 in 1970-71 while the percentage of non-operating expenses varied from 0.8 in 1971-72 to 4.3 in 1966-67. The percentage of interest paid to sales was highest in this concern which varied from 5.5 in 1972-73 to 11.8 in 1966-67. It shows that the company depended heavily on borrowed funds and followed the policy of trading on equity. No provision for taxation was made except in 1970-71 while the percentage of dividends fluctuated from year to year and in the last two years no dividend was paid. The percentage of retained earnings was highest in 1970-71 being 10.1 while it was negligible during 1965-66. The common-size profit and loss statement of aluminium industry in India shows that during 1973-74 the cost of goods sold consumed a higher percentage as compared to selected industries in India (Table VI p. 1142). The percentage of operating profit in selected industries in India varied from 11.8 to 27.3 while in aluminium

industry it was merely 8.3 and in individual aluminium companies it was 16.3 and 17.4 respectively for Indal and Malco whereas Hindalco suffered small operating loss and Alcoin suffered heavy operating loss. The non-operating income earned showed a positive surplus over non-operating expenses in aluminium industry during 1973-74 while in other industries there was a deficit, except in the mineral oil industry. The percentage of interest paid in 1973-74 was also high in aluminium industry as compared to other industries except shipping. The percentage of provision for taxation was lower in aluminium industry as compared to silk and rayon textiles, motor vehicles, engineering, chemicals, mineral oil, paper and paper products and electricity generation and supply while in others it was lower than the aluminium industry. All the above factors resulted in lower percentage of net profit in aluminium industry, as compared to other industries except cement industry where the figure was negative. It should be noted here that Hindalco and Alcoin

had suffered operating loss and the percentage of cost of goods sold was more than hundred. The percentage that dividends paid bore to sales in 1973-74 was the highest in aluminium industry as compared to all other industries. There was a negligible percentage of capital profits in aluminium industry while the figure of capital profits for other industries are not available. The retained earnings in 1973-74 showed a negative figure in aluminium industry while in other industries it was positive except in the case of cement.

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4. Common-size Profit and Loss Statements are shown in Table II.
5. Common-size Profit and Loss Statements are shown in Table III.

TABLE V
Madras Aluminium Company Limited : Condensed Profit and Loss Account (Consolidated)
Including Commonsize Percentages

	(In per cent)								
Particulars	1965-66	1966-67	1967-68	1968-69	1969-70	1970-71	1971-72	1972-73	1973-74
Sales	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Less cost of goods sold	80.4	76.9	80.0	81.2	78.9	78.8	84.2	83.7	85.6
Operating profit	19.6	23.1	20.0	18.8	21.1	21.2	15.8	14.3	14.4
Add non-operating income	1.2	0.6	1.3	2.9	2.8	3.0	1.4	1.7	1.7
	20.8	23.7	21.3	21.7	23.9	24.2	17.2	16.0	16.1
Less non-operating expenses	4.2	4.3	2.4	1.9	1.2	0.9	0.8	1.8	3.7
Profit before tax and interest	16.6	19.4	18.9	19.8	22.7	23.3	16.4	14.2	12.4
Less interest	10.5	11.8	9.0	8.2	7.3	5.8	6.4	5.5	10.6
Profit before tax	6.1	7.6	9.9	11.6	15.4	17.5	10.0	8.7	1.8
Less provision for taxation	—	—	—	—	—	—	—	—	—
Net profit	6.1	7.6	9.9	11.6	15.4	17.5	10.0	8.7	1.8
Less dividends	6.1	5.5	—	10.9	8.8	7.4	8.0	—	—
	0.0	2.1	9.9	0.7	6.6	10.1	2.0	8.7	1.8
Add capital profits	—	—	—	—	—	—	—	—	—
	0.0	2.1	9.9	0.7	6.6	10.1	2.0	8.7	1.8
Less reserves capitalised	—	—	—	—	—	—	—	—	—
Increase in retained earnings	0.0	2.1	9.9	0.7	6.6	10.1	2.0	7.8	1.8

Note : Commonsize percentages, taking sales for the respective years to hundred.

TABLE VI
Commonsize Profit and Loss Statement of Selected Industries in India During 1973-74

	Tobacco	Cotton Textiles	Silk & Rayon Textiles	Iron & Steel	Motor Vehicles	Engineering (Total)	Chemicals	Mineral Oil	Cement
Sales	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Less cost of goods sold	84.0	87.0	77.0	85.4	88.2	84.9	77.1	72.7	88.2
Operating profit	16.0	13.0	23.0	14.6	11.8	15.1	22.9	27.3	11.8
Add non-operating income	1.0	2.3	1.4	5.5	2.0	2.2	1.6	6.6	2.0
	17.0	15.3	24.4	20.1	13.8	17.3	24.5	33.9	13.8
Less non-operating expenses	6.8	5.1	4.4	10.8	4.3	6.2	8.3	6.0	4.3
Profit before tax and interest	10.2	10.2	20.0	9.3	9.5	11.1	16.2	27.9	9.5
Less interest	1.9	3.2	1.5	4.1	3.2	3.2	3.0	1.6	3.2
Profit before tax	8.3	7.0	18.5	5.2	6.3	7.9	13.2	26.3	6.3
Less provision for taxation	4.7	2.5	5.5	2.0	3.5	4.3	5.5	15.1	3.5
Net profit	3.6	4.5	13.0	3.2	2.8	3.6	7.7	11.2	2.8
Less dividends	1.2	1.3	2.8	1.6	1.2	1.6	3.2	9.2	1.2
	2.4	3.2	10.2	1.6	1.6	2.0	4.5	2.0	(—)
Add capital profits	—	—	—	—	—	—	—	—	—
	2.4	3.2	10.2	1.6	1.6	2.0	4.5	2.0	(—)
Less reserves capitalised	—	—	—	—	—	—	—	—	—
Increase in retained earnings	2.4	3.2	10.2	1.6	1.6	2.0	4.5	2.0	(—)

	Rubber & Rubber Products	Paper & Paper Products	Electricity Generation and Supply	Shipping	Aluminium Industry	Aluminium Companies in India			
						Alcoinc	Indal	Hindalco	Malco
Sales	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Less cost of goods sold	86.9	77.6	80.2	75.0	91.7	125.0	83.7	100.9	82.0
Operating profit	13.1	22.4	19.8	25.0	8.3	(—) 25.0	16.3	(—) 0.9	17.0
Add non-operating income	1.0	1.8	1.3	3.9	1.8	3.4	1.4	2.1	2.0
	14.1	24.2	21.1	28.9	10.1	(—) 21.6	17.7	1.2	19.0
Less non-operating expenses	7.1	8.6	6.5	7.4	0.4	2.1	0.1	0.2	4.0
Profit before tax and interest	7.0	15.6	14.6	21.5	9.7	(—) 23.7	17.6	1.0	15.0
Less interest	2.4	3.8	4.3	5.8	5.1	13.6	5.3	3.0	12.0
Profit before tax	4.6	11.8	10.3	15.7	4.6	(—) 37.3	12.3	(—) 2.0	2.0
Less provision for taxation	2.1	3.7	5.0	1.0	3.0	—	5.7	—	—
Net profit	2.5	8.1	5.3	14.7	1.6	(—) 37.3	6.6	(—) 2.0	2.0
Less dividends	1.8	2.8	1.6	3.3	3.6	—	5.8	1.4	—
	0.7	5.3	3.7	11.4	(—) 2.0	(—) 37.3	0.8	(—) 3.4	2.0
Add capital profits	—	—	—	—	0.1	—	—	0.2	0.0
	0.7	5.3	3.7	11.4	(—) 1.9	(—) 37.3	0.8	(—) 3.2	2.0
Less reserves capitalised	—	—	—	—	—	—	—	—	—
Increase in retained earnings	0.7	5.3	3.7	11.4	(—) 1.9	(—) 37.3	0.8	(—) 3.2	2.0

Note : Net sales has been taken as hundred and percentages calculated. While studying percentages of individual aluminium companies, gross sales has been taken as hundred.

Source : Computed from data collected from Reserve Bank of India Bulletin, December 1974, pp. 2308-2315 and annual reports and accounts of aluminium companies in India for the year 1973.

Paris fiasco :

E. B. Brook

A man-made disaster

The Paris conference was a sorry spectacle, more so because of the reemergence of protectionism which everyone had foresworn a month earlier at the London conference. The author believes that a good deal of aggressiveness is called for on the part of developing countries for seizing opportunities and dealing with the hard boiled industrialised countries at GATT, UNCTAD or the IMF, of course without imperilling talks on raw materials, access to western markets or securing debt aid.

THE FAILURE of the Paris conference on international economic cooperation is one of the biggest man-made disasters since European leaders decided in 1939 to enter a war which almost destroyed their continent. They have learnt nothing from the loss and later universal bankruptcy of those days, react today to America's vital and massive help at that time as a plot to undermine the multitude of sovereign states—several of them astringently diminished since those days—and, mostly heavily in debt and several living on IMF loans, still presume to lord it as mightly when they had money in the inter-

of its scanty reserves, despite a £200 million drawing from the IMF, largely because 'hot money' which flowed in when interest rates were high is now draining out of Britain as those rates fall. The so-called 'developing' countries have at least this consolation, that those who are being beastly to them are being no less beastly to one another.

The Paris meeting, the last round of the so-called North-South dialogue, was intended to take from those who have relatively ample resources in visible and invisible trade and hand a small measure of it to those who have far less. The out-

need it and in setting up a method of ensuring a reasonable price for all basic industrial and food products.

The conference was a sorry spectacle altogether in that, not only were the major trading nations outrageously selfish, but also in that there were divisions among the lesser trading nations, of which their opponents made the most. There were signs of a re-emergence of protectionism which everyone had foresworn at the London conference a month earlier, and of reluctance to open western markets to industrially developing countries' manufactures. The attitude will become the more disastrous as the rapidly growing number of industrially developing countries increases and as those farthest along the road of industrialisation become more prolific in output and expert in marketing and in quickly seizing the main chance.

diminishing prospects

At the moment it is difficult even to hope that the hard-boiled industrialized states, who showed surprising rancour and narrowness, will be willing to try again. This is no moment to relax in liberal hopes. Nor is it, unfortunately, likely that the International Monetary Fund can be induced to relax its rule withholding support from any country which does not balance its external account. The prospect for even the so-called 'soft loans' is diminished. The time for reliance on loans, except in dire extremities, should be passing for most of the industrially developing world: a good deal more aggressiveness is called for both in seizing opportunities, even the slimmest, and in dealing with the bigger industrial states on their own terms. The industrially developing states should make their resentment continuously obvious in trading and in competition for a very long time. There comes a time when the virtue of forgiveness and tolerance become near-fatal

WINDOW ON THE WORLD

national banks and colonial lands from which they extracted wealth.

That those lands, now sovereign republics, should want a fair deal in international commerce is regarded as outrageous if not positively insulting. But if a number of industrially developing countries owe money to the IMF and other lenders so also do a number of the western states who continue to thrive still on a beggar my neighbour basis. One of the current victims of this amiable process is Britain which, as it celebrates its Queen's jubilee with no little show of Angloism, has to sell nearly £150 million

come of this excellent purpose was as raw an exhibition of acrimony and self-interest as has been seen for a long time. A further increase in the price of oil may well be one of the outcomes of this arrogant and selfish stupidity.

Two of the major oil producers—Saudi Arabia and Venezuela (by no means 'poor' countries)—were prepared to discourage their colleagues in OPEC, most of whom want higher prices anyhow, from raising prices providing the west European countries and north America were prepared to act generously in providing a fund for financial aid to poorer countries when they

weaknesses. One area where more aggressiveness has a chance of being effective is GATT, with UNCTAD as a very obvious second battle ground. It seems necessary to recognise the hard fact that there will be no new world order for quite a while. Also, that nothing hurts the *amour propre* and, possibly, business of the major industrialised states as to have their unpopularity regularly brought home to them, not least in the loss of business opportunities.

All this is not to say that there may not be opportunity to rescue some near-achievements, especially the industrialised states' willingness to aid agriculture. Certainly nothing should be done to imperil future talks with the UN on raw materials, in GATT for greater opportunities of access to European and American markets or in the IMF and World Bank in providing funds for debt aid. The greatest hope for some return to cooperation is the problem which any further rise in the price of oil will create for all the industrial countries—unfortunately for the rising industrial states as well as for those established in the last century.

The western industrialised states know they have three major weaknesses. They fear unemployment as a source of social unrest, they fear inflation—up to 17 per cent in

Britain—as a cause of falling living standards and they fear, both as borrowers and lenders, the effects of unmanageable debts building up. Dr Burns, head of the US central banking organisation, recently warned that private banks could no longer prudently finance other countries' oil-related deficits indefinitely. These deficits are not confined to the debts of industrially developing countries. There have been indications in the USA and in Britain that institutions have become heavily involved in the more exposed types of foreign lending and that this is already a matter of considerable concern to central financial authorities.

Hungry for business, many of the world's major banking groups have responded enthusiastically to growing demands for loans from other countries in recent years. The size of foreign debts to a number of banks in major financial capitals, especially Washington and London, has grown to more than half the total of debts owed to the banks. If the security of the borrowers' assets came to be seriously questioned banks could fall into the dangerous position of being suspected by their depositors. The consequences for themselves and for the national and international financial systems of which they form part would be very

serious indeed for the established industrial countries.

Realisation of these triple dangers, and others, should and probably will, make for cooler reflections once the dust of the Paris meeting at the beginning of June has settled a little. The west knows that pressure on the least favourably-placed countries is allowed to become too intense; the risk of the latter defaulting is considerable. The risk of a general demand for a moratorium on all their external indebtedness by the least economically developed countries is a bogey that hangs uncomfortably close over a number of American and west European heads. Recent growth of western banking has not been altogether healthy. Since 1970 the amount of money handled by the European currency market—one of the main channels through which international lending passes—has increased from \$50,000 million to \$250,000 million. This is a financial situation in which, as lender, the few industrialised states, know they sit at the most risky end of the balance. When cash has money advanced of such huge proportions it is to the lenders' advantage to see that his debtors have at least the ability to repay, in commerce as well as in cash. This reflection should be a calumet to the roughnesses of Paris in June 1977.

EASTERN ECONOMIST

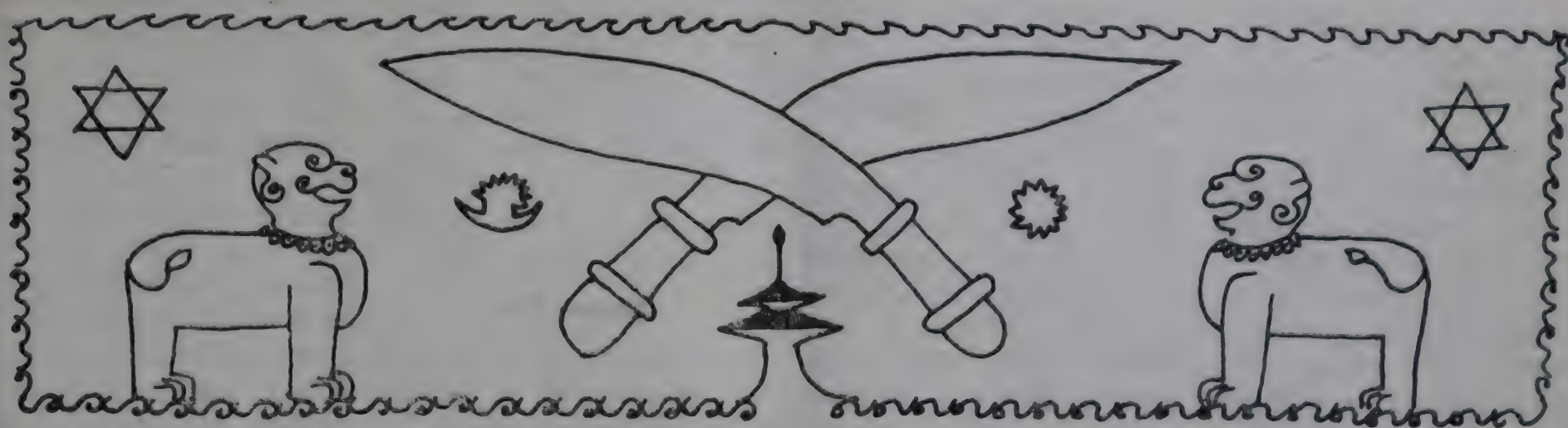
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Nepal, the Tourist Paradise

I. K. Pradhan

NEPAL, BY virtue of its geographical setting and contrasting topographical characteristics, offers some of the most exciting natural attractions and scenic beauty of the landscape. It is just one hour's flight from the lowlands of the southern plains to the regions of lofty snow-clad mountains, which guard the northern borders of Nepal like sentinels. Nepal had opened the gates to foreign visitors in 1950. Even in 1968, only India and the Far East were the main holiday destinations for visitors to this part of South Asia region. The

connection of Bangkok with Kathmandu in 1968 by jet service of Thai International opened avenues for the flow of greater volume of international tourist traffic to Nepal. In the last decade, as a result of the introduction of jet service by RNAC, IAC and UBA, there has been substantial increase in tourist traffic to Nepal. A comparative study of the data shows that for a relatively newcomer in the field of international tourism, Nepal has attained appreciable success in a very short time. From 1966 onwards, there has been

New Office of RNAC

This is a special feature issued on the occasion of the formal opening of the new spacious air-conditioned office of Royal Nepal Airlines by Prince Himalaya Bir Bikram Shah at 44 Janpath, New Delhi on June 15, 1977. The airline is increasing its flight frequencies to Delhi, Bangkok and Colombo from October next. It will be adding another Boeing to its fleet shortly.

a gradual increase in the number of tourists both by air and by land. However, air travel today constitutes more than 80 per cent of the total tourist traffic to Nepal. From a figure of 52,930 in 1972, after the introduction of Boeing 727 by RNAC, the tourist arrival figure reached 105,108 in 1976, of which approximately 18 to 20 per cent was regional traffic from India.

This clearly indicates an upward trend in international tourist influx to Nepal. Considering the existing infrastructural facilities and their intake capacity, the volume is encouraging. By 1980-81, the destination tourist traffic to Nepal is expected to reach the figure of 200,000.

A major percentage of visitors from regional as well as international markets come for imbibing nature, sightseeing and pleasure tourism. Since 1973 there has been a marked positive trend in the increase of tourist traffic for expedition, trekking and mountaineering, reaching a figure of over 12,000 in 1975, second only to sight-seeing and pleasure. Of the total number of visitors, about 15 per cent went for trekking. Trekking routes have also been expanded to new points in the Himalayan regions. HMG Tourism Ministry is considering opening up of many more new trekking routes and hill resorts which had previously been untouched by tourism. As a follow-up to the logical expansion pro-



Boeing 727 of RNAC as a major booster of tourist traffic to Nepal operates scheduled flights to Kathmandu from Delhi, Calcutta, Colombo and Bangkok

gramme of RNAC, a new route to Colombo in Sri Lanka, has been opened since March 16, 1977 on once-a-week flight, thereby bringing closer the Sea Beaches of Sri Lanka and the Snow Heights of Nepal.

In order to cater for the increasing number of tourists from international gateways, RNAC will increase its frequency of operation to Delhi, Bangkok and Colombo, and there is a plan to airlink Hong-kong at a later date.

Before 1954 the concept of modern tourism was virtually non-existent in Nepal and the administrative activities were limited only to certain control measures. It may be mentioned that a major portion of the tourism activities in Nepal in the past seemed to have been handled by private sector groups in the form of developing resort areas, essential services and to a certain degree, promotion of travel. The significant role of the National Carrier in carrying out its professional publicity and promotion activities has made considerable impact lately in better exposure of Nepal as an ideal tourist destination.

In tourism it involves movement of people from one desti-

nation to another. New destinations are opened for various holiday trips, excursions either on individual basis or in the form of conducted group tours organized by travel agents. Nepal's tourist traffic trend is more on group travel basis of reasonable spending capacity. It is intended that our tourism economy functions on a mixed basis, i.e. the luxury class tourists, higher middle class as well as the budget category, so that the tourist spending should be able to permeate every layer of our national socio-economic nucleus. As a result of the impact of modern tourism and changing international trends in tourism market, the effect is no doubt felt by Nepal also.

It is in keeping with this changing international tourism trend that HMG is seriously taking up the question of effective and professionalised development of tourism in Nepal through provision of better facilities of infrastructure, creation of resort centres, renovation of arts and architectural masterpieces, evolving of efficient manpower for manning various functions and services related with the industry. The reception and

welcome at the arrival point of destination are normally handled in a hospitable manner and other necessary facilities like transfer to hotels or sight-seeing tour facilities are arranged by Travel Trade bureaus. Use of licenced and better trained guides is also gaining importance.

Master Plan

With the passage of time and the various benefits of tourism being realized increasingly, it is expected that in the next five to ten years Nepal as a potential tourist destination should succeed in finding a significant place on the tourist map of the world. In order to give a boost to the development of tourism in the country a tourism master plan was completed in 1972 with the help of the Federal Republic of Germany and technical assistance programme of ABD. It is more or less on this basis that measures for the development of tourism are being carried out.

For developing picturesque Pokhara Valley as a second destination besides Kathmandu, a special study of the area was completed by PATA Board of Authorities in 1975, in co-ordination with HMG Department of Tourism. For production of trained manpower in various spheres of tourist services, a Hotel Management and Tourism Training Institute is functioning in Kathmandu, under UNDP Aid Programme in collaboration with Department of Tourism.

As far as accommodation facilities are concerned there are more than 20 luxury hotels operating in Nepal, besides a number of middle level lodges. By the end of 1977, with the completion of extension programmes of some of the hotels, the number

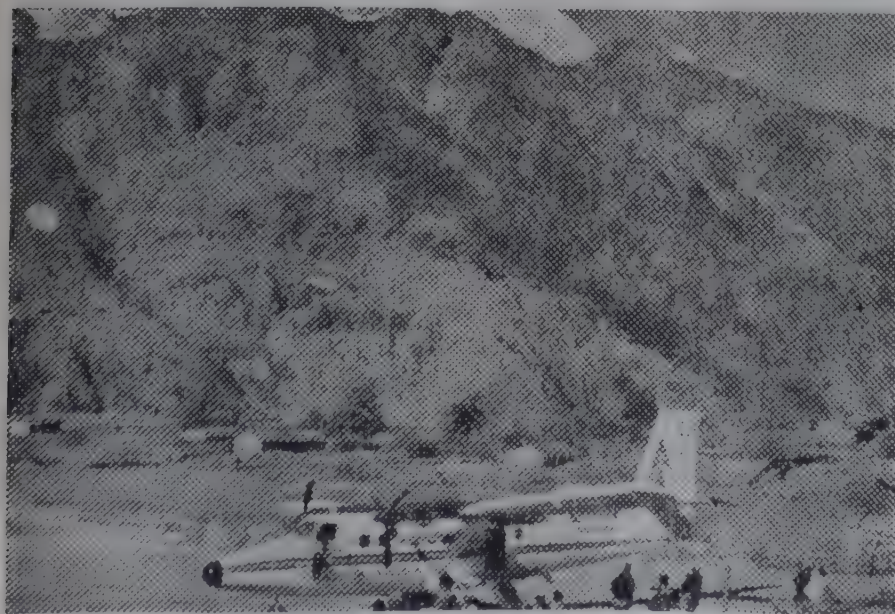
of hotel beds is expected to cross 3,000. At least 15 of these luxury hotels are located within the Kathmandu Valley. Apart from the Kathmandu Valley, there are international tourist standard hotels in Pokhara, Bhairawa, and the newly opening mountain resort hotels in Lukla, Jomson, Phaplu etc, connected by regular services of RNAC. For those who desire to experience Wildlife Tourism, there are a number of Jungle lodges operating in Chitwan National Park, the oldest and most sophisticated being the Tiger Tops Hotel, like the Everest View Hotel at Shyangboche for promoting Mountain Tourism.

Tourist Facilities

In the same area of the sprawling jungle wilds of Chitwan National Park, for budget group of visitors, economical Safari Lodges like the Elephant Camp Hotel of typical Nepalese style hutments are available, for wildlife and jungle tours on elephant backs in the dense forests of Sauraha, teeming with wild animals and multi-varieties of birds. Accommodation facilities for mountain trekkers are being made available in the form of cottages and simple lodges along the foothills of the Himalayan zone, covering the main trekking routes leading to the heart of the Annapurna range and the Solokhumbu, as well as other new areas.

The 5-star luxury hotel—Soaltee Oberoi—has a massive extension programme expected to be completed within a year or two. Among the 4-star hotels undertaking extension works are Annapurna and Shankar, whilst Everest International, Yak and Yeti, etc., are nearing completion.

A major portion of travel to



Internal air services of RNAC now airlink more than 24 stations within Nepal covering practically every part of the country, and many natural tourist spots are now within your easy reach.

pal of course is by air. RNAC provides direct connections to Kathmandu from Delhi flights a week, from Calcutta to flights a week, from Patna to flights a week, from Bangkok three flights a week. From Colombo there is at present once a week flight but the frequency will be increased to twice a week effective October. Other operators include Indian Airlines from Patna, Calcutta and Delhi, Bangladesh Biman from Dacca, BOA from Rangoon and Thai from Bangkok.

Currently RNAC has a share of more than 45 per cent of the total tourist traffic to Nepal from the above mentioned gateways. Within the country, besides the surface transport connecting important places like Pokhara, Biratnagar, Janakpur, Biratnagar, Simra etc., RNAC operates extensive internal

services covering practically every part of Nepal.

Air service has proved to be the most convenient means of travel for those wanting to visit different areas of tourist interest lying within the territory of Nepal. Most of the tourist spots are situated within easy airhops from Kathmandu at the foot of the smiling Himalayas that unfurls its vast panorama to the awe and excitement of the visiting tourists, giving that sensational and unforgettable experience of being in the very lap of unspoilt nature.

HMG Ministry of Tourism is paying serious attention to the provision of better facilities, whilst the airport modernisation programme is also underway. The growth of international tourism is showing a positive trend. Hence

the problems of providing better recreational and infra-structural facilities are being given due attention. The future development plan embraces within its fold opening of more countryside resorts with appropriate facilities, to provide wider avenues for diverting visitors away from the congestion of Kathmandu, and thus help to increase the length of stay of the tourists. Measures are also being taken to provide better variety of tourist products to enable them to spend more during their stay in Nepal. Due attention is being paid to evolve best effective solutions for result-oriented marketing, promotion training and development of professional capabilities for manning the tourism industry as a whole.

In order to develop and

promote tourism, while at the same time protecting natural environment and preserving our cultural values, several schemes are expected to be evolved by HMG Ministry of Tourism, in line with the overall national development objectives. Within a year or two, the ministry expects to open tourist information offices in potential destinations of the world, regional as well as in the international frontiers, for providing ready information to the prospective visitors.

In view of the attention that is expected to be paid at the governmental level by HMG for developing tourism as a vital segment of our national economy in the next few years, Nepal is hopeful of preparing itself adequately for playing its significant role in the sphere of promoting intra-regional as well as international tourism.

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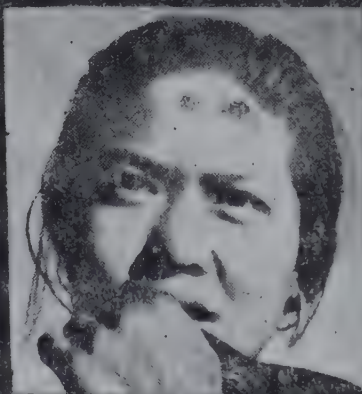
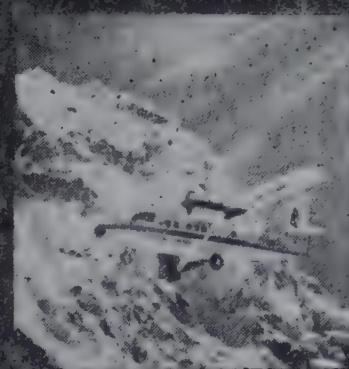
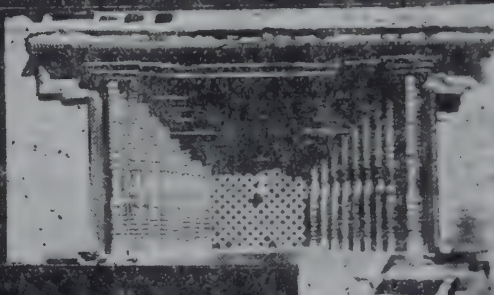
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Doing business in Iran : with profit and pleasure

Faramarz Attar

An Iranian educated in the US (CPA New York, MBA Harvard), Mr Attar recommends a proper approach and management attitude for the medium and large-sized multinationals towards the Iranian market. Based on his extensive experience as the managing partner of an international firm of accountants, consultants and tax advisors operating in Iran, he expresses the view that most western managers, in trying to do business the "local way", misjudge the true local ways and do not consider the changing nature of local standards resulting from Iran's developing economy. Local government and top local management are aware of this attitude and critical of it. However, despite difficult local conditions, western managers have the ability and are expected to be instrumental in the establishment of the free enterprise management system in Iran. Saying what Iran needs is their business judgement, he appeals to foreign firms not to sell this short.

BUSINESSMEN FROM the world over have been coming to Tehran, the modern capital of Iran, in pursuit of their dreams. Some come to chase up a contract with one of the government agencies; some come to set up an outlet to sell products; some come to establish a branch to provide services; and some are simply interested to find out more about this booming economy and see what is in it for them. Despite what the foreign newspapers have written recently on the slow-down in Iran's economic growth and certain disillusionments which may have been part of the experience of the past four years, airline and hotel bookings alone indicate that there are attractions in Iran which continue to lure businessmen from all over the world.

In reviewing the reasons for the attractions one observes that Iran has the largest economy of all OPEC countries. In terms of GNP it is the largest of the oil producers, being significantly ahead of the next in line, Venezuela, and having three to four times the GNP of Saudi Arabia, the largest crude oil exporter in the world. Because of its size, population of 35 million, strategic location, and a leadership firmly committed to rapid industrialisa-

tion, Iran has more potential than any other nation in the middle east to use its vast oil resources (about 20 per cent of OPEC exports) to become a modern industrial nation. In addition, Iran enjoys an existing infrastructure which lends itself to a more advanced stage of development activity and with an emerging relatively affluent middle class, Iran remains the largest single consumer market in the middle east.

The proven oil resources of Iran will continue to finance its development plan for the next 20 or more years. Its gas resources, unofficially estimated at some eight trillion cubic meters, (larger than those of the US and second only to the reserves of the Soviet Union) as well as other substantial mineral deposits including copper, coal, lead, iron, zinc and sulphur could provide substantial additional sources of revenue well beyond the year 2000.

The government however is singularly committed to rapid modernisation with the belief that an integrated industrial structure, with internationally competitive export strength, is a realistic goal before the year 2000. Therefore the country's investment plans as indicated by the fifth

development plan (1973-78) concentrate heavily on industrial build up, and the necessary supporting transport and communication facilities. Seventy per cent of the total public and private investments of \$70 billion is designated for development of the economy, specially in manufacturing, mining, transport and communications. Agriculture, social affairs and housing constitute the more important portions of the remaining projected public and private spending.

The above facts relate to Iran's strengths which attract the foreign businessmen to Iran. Once there, the expatriate manager has to deal and cope with many obstacles towards which he may feel disadvantaged and ill equipped.

With about half of the population still illiterate the country suffers from a shortage of trained manpower. Even amongst educated, a true understanding of modern industrial and business approach and attitude towards ones' duties and responsibilities is lacking.

rampant inflation

A high rampant inflation rate which is often hard to measure and almost impossible to predict with any certainty could contribute to substantial losses for contractors with fixed cost turn-key projects. Shortages of raw materials and power for industrial productions, places an additional limitation on developing industries.

Serious inadequacies in port capacity, roads, and rail facilities as well as strain within the communication infrastructure have, in the past, resulted in long shipping delays and bottlenecks and complete failure of local and foreign investors to meet their deadlines.

Uncertainty is one of the major factors contributing to the frustration and anxiety that sometimes besets businessmen, particularly the foreign investor in Iran. Chan-

ges in import and export regulations and fluctuations in oil demand and local agricultural production levels lead to unpredictable prospects.

The tax laws are subject to a varying range of interpretations which render tax planning a difficult, if not impossible task.

Government is sometimes known to resort to heavy-handed measures, implemented by a traditional bureaucratic system, to reach its goals and objectives which may not always be in the same direction as the goals of the business sector. In recent years quite a few of the government's sincere efforts to serve the nation have had the adverse effect of creating uncertainty in the minds of domestic and foreign businessmen. Examples of such efforts which may in affect have hampered the private sector are:

1. Price control measures to curb inflation and antiprofitteering.
2. Attempts to widen the range of industrial ownership through distribution of 49 per cent of industrial companies' shares to workers, farmers, and the public.
3. Encouragement of local participation in industrialisation by limiting the foreign holding in Iranian industrial operations to between 10 per cent and 35 per cent.
4. Control of corruption through introduction of severe punishments and public disgracement of the wrongdoers.

hurdles in the way

The foreign businessmen already involved in Iran is quite familiar with these and other obstacles of the business environment. His typical reaction to resulting complex and difficult problems is one of over simplification. He is caught in the problem. He has no vision or measure of its effects on what future may bring to eliminate the problem. He does not try to go deep, or try to understand the roots of the issues involved. All he wants is someone or some quick means to the solution; he will resist finding that solution himself. He accepts the traditional conditions as given and looks for a quick effective local measure. By doing so he

unknowingly support and encourages the problem and the traditional structure which is the source of it. On the other hand not being familiar enough with the true traditional system, he makes many mistakes, such as spending more resources than necessary to solve an issue, not getting the deserved results due to his inability to define the true problem or the solution offered, delaying the processes to beyond the normal time needed to resolve it, and finally getting caught and reprimanded by the officials or higher level local business colleagues as "short-sighted foreigners in search of quick profits".

lack of communication

Throughout these misadventures the local representative has very little communication with his superiors back home. It is quite common that the bosses in the home office do not have a true understanding of the local conditions and the commitment necessary to resolve the problems. Instead they keep pushing for results and answers which are really short-sighted in nature and at times quite irrelevant to the issues at hand.

Indeed, due to the lack of understanding of the local problems, lack of involvement and commitment at appropriate levels, and without appropriate resources to deal with them, the visiting foreigners have created a great deal of frustration for themselves and have evoked some wrath from the government as well as the top management of local businesses. This disappointment could be sensed in various open expressions of the officials and local managers towards the western businessmen and the number of western companies failing to get the nominations they expect or experiencing unusual difficulties in their attempts to implement their objectives in Iran.

Obviously many of the foreign companies decide to withdraw from Iran in mid-stream, claiming that the risks under the present circumstances are beyond the ordinary business risks they are willing to take. By doing so they write off their sizable investments and in fact lose the existing and future opportunities to those companies who are willing to approach

this market with more care and commitment.

After having reflected on the realities of the local scene, I would suggest that foreign businessmen should try to answer the following questions prior to setting out their plans regarding the degree and nature of their involvement in Iran:

- (a) What are the present conditions in Iran—what are the local facts and realities?
- (b) Where are Iran's commitment in terms of the economic development, and how realistic are these?
- (c) What is the planned speed to reach the development goals, and how realistic is this?
- (d) Is the social and cultural change from a traditional two class system to modern free enterprise system happening and will the middle class values and conditions prevail soon enough?
- (e) Could they and their organisation play a role in contributing to this change through their products and services as well as their modern managerial attitude and the open approach to resolving problems?

My personal response, based on my practical experience in Iran and close association with the western organisation and managers is quite positive to all of the above.

bright future

While our time limitation will not allow me to elaborate on the first question of facts and figures on Iran. I would like to take this opportunity to discuss my feelings regarding the future of the country, the factors contributing to the speed we move towards the future and your potential role in this process:

—Iran has the will and the commitment as well as the necessary resources to develop into a modern industrial nation. The leadership of the country is sensitive to the local problems and committed to resolving them in due time. In its development plan it is willing to correct itself along the way as it gains experience and develops knowledge.

—Iran recognises that it has a long way to go and is aware of the implications

development plans. The government is very interested in a "cruising speed" rate of growth and anxious to determine sound priorities and a viable development strategy in the face of numerous and shifting variables.

Iran would like to do the above with the help of the western industrialised nations. It is interested in the goods, know-how and experience of the west as well as the free enterprise system and a legal structure which will further these aims rather than hinder it. It is willing to pay for these goods and services but expects a high degree of expectancy in terms of the commitment which comes along with these goods and services. In other words Iran would like to see businessmen who are willing to invest in the long-term future of Iran, train their Iranian counterparts, think of assembling or eventually manufacturing their products locally, and finally aim at becoming industrial trade partners to maximise the advantages inherent in international trade and exchange.

I am not suggesting here that foreign businessmen should forget the number one principle of business—i.e. profit motive. What I am proposing instead is to get a better understanding of the Iranian scene, its future, and the speed by which it is changing will contribute to the long-term profitability of their own companies.

helpful suggestions

It takes a little more than a magazine article, a speech or even a visit to Tehran, to measure the appropriate commitment your company should make in this country. However, in closing, I leave them a few suggestions which in my experience would be helpful to them in approaching this new market:

At the initial stage recognize that Iran, like any other potential market or project deserves a preliminary study prior to deciding the course of action to be taken. Allocate a budget, assign an experienced person with proper international background, and set a time objective to develop an analysis of all the local facts and figures concerning your areas of interest. Accumulating and assessing the neces-

sary information and facts rely on your own business judgment and common-sense. Do not allow "local ways" to influence this judgment. Behind every event or bit of information which might look strange or senseless there is a prevailing cause and an explanation which is worth looking for.

II. If you decide to become involved, select the slower of the alternative processes. For example, instead of jumping into a joint venture for manufacturing, first gain some valuable local experience by selling your products independently or through an agent. This should lead to establishing a service organization for your products, then to an assembly plant and finally, when ready for it, to a joint venture manufacturing operation. Local contacts may seem to be in hurry, but by following a slow but sure course of action success could be more assured.

local assistance

At this stage you will need to acquire qualified local assistance—advisors, employees, partners, etc. These relations are extremely important, and in the small closed business circles of Iran, could establish or ruin your reputation. Again do not jump into a heavy commitment before you have actually worked with the nice guy you just met in the hotel lobby who seems to have the proper education and experience and above all the proper contacts in Iran.

III. In my experience many foreign companies do a good job up to this stage. They send in their top level executives to research the market, establish a meaningful plan and set of good relationships, and make substantial financial commitments to this new market. However, as soon as the plans get rolling, the top executive is replaced with a young inexperienced junior manager and all the facts and figures are simply filed back home. The task of Iranian operations is assigned to various middle management personnel involved in different functional areas, or to an area director designed to account for the success and failures of the local representative. Unless a crisis arises, the top executives initially involved and their valuable files of facts and information are not consulted. And by the time the flame of

crisis has caught up with the top level, it is too late to do anything meaningful; everyone runs for shelter, the cover up stage begins and normally Iran and Iranians end up being the scape goat for all the company's failures.

general recommendations

The obvious recommendations therefore, at the involvement stage is to:

(a) Send one who is fully qualified to represent you in a challenging environment.

(b) Trust him, and rely on the information he will send you.

(c) Make sure you have a good line of communication with him. Back him by regular visits and routine two way communications.

(d) With his help develop a long range, stage by stage plan with flexibility to change as new information and facts become available.

(e) Keep in touch with your key advisors in Iran. Visit them regularly, and have them visit the other key company officials whose decisions may effect the future of your involvement in Iran.

(f) Do not be flexible with ethical standards. Try to obtain a definite understanding and feel for local economic and ethical values.

(g) Consider the role of this new market within the overall corporate goals and aspirations. In other words, recognize the potentials of Iran, other than its current contributions to bottom line.

(h) In case of conglomerates and diversified multinationals, centralise involvement in Iran in one office rather than separate involvements of different divisions.

(i) Back home, centralise the information and the decision making related to Iran, in or around one office. Recognise the value of the experience and information you have gathered in this new field, and make it available to all future commitments in Iran.

(j) In fact follow modern management rules as you would do back home. And above all do not forget, what both your company and Iran needs is your business judgment. *Do not sell this short.*

'Vini, Vidi, Vici'. Mr Morarji

Desai is unlikely to go down in history as another Julius Caesar. All the same his visit to London for the commonwealth summit has apparently been a minor triumph. The British press has generally been good to him and most of it seems to have taken kindly to his home-spun wit and wisdom. This at least gives the lie to the emergency propaganda in this country, so sedulously fed and fostered by Mrs Gandhi and her minions, that the foreign mass media have a down on India and anything or everything Indian. Mr Desai's speech at the opening session of the conference no doubt had a padding of sentiment. This, some of us might think, was rather incongruous in the harsh context of current international relations and attitudes among nations. But many more among us may hesitate to fault him on this because the commonwealth, after all, is and must be, for better or worse, an act of faith.

While the commonwealth summit provided Mr Desai with a reason for making a major journey abroad, before the government of which he is prime minister has had time to settle down, even without such an occasion arising it would have been useful for Mr Desai to make an early trip to a leading foreign capital where he would be exposed to the searchlight of international attention. The circumstances under which the Janata government came to power have naturally invested it with a certain claim to the goodwill of the governments and peoples of democratic countries. This goodwill however has to be turned into solid assets of understanding and cooperation. This may involve the leaders of the Janata government getting acquainted and communicating with governments and public opinion in foreign capitals. So far the prime minister, the minister for Exter-

nal Affairs, the minister for Finance, the minister for Law and Company Affairs, the minister for Labour and, of course, the minister for Communications have made their appearances abroad. While the necessity or utility of some of these visits have been questioned, there could be broad agreement on the proposition that the country may have gained on the whole through representative leaders of the Janata government going through with those political sales trips to foreign countries. Public opinion, however, is bound to be critical of too many ministers going too often abroad whether to attend conferences or for other purposes. Broadly speaking, ministers of a new government could more usefully spend their time tending home fires rather than stoking up furnaces in foreign parts.

In the month of the cent-

ral budget, the Finance minister spoke to the officers of the income-tax administration in a language which must be music to the ears of the honest (or reasonably honest) assesseees. Mr Patel, addressing an audience of income-tax commissioners on June 3, said, "Where you know that the taxpayer's record is clear it ought obviously be your duty to give him a benefit of the doubt." He pointed out that tax laws were complicated and "their full comprehension is beyond the ability of most men". (Wiser words were never spoken, Gunga Din).

The Finance minister was against income-tax officers mechanically invoking penal provisions in cases of technical infringement, for if this is done, then, "we are not doing our duty, since we must at all times see that the honest taxpayer is never troubled or harassed". Affirming that taxpayers should be shown a reasonable consideration and fairness, Mr Patel cautioned the income-tax administration against unrealistic assessment

based on mere suspicion or half-baked evidence or making addition to the income returns on flimsy grounds which fail in appeal. Finally, after pointing out that it was not enough to go down heavily on tax evaders and that wide public opinion should be given to the punishment meted out so that other would-be offenders knew the serious risks they were running, the Finance minister made it clear at the same time that he saw no virtue in the tax administration resorting too readily to its "drastic powers of search and seizure". His advice to the officers was that the powers should be used only "after satisfying yourself that the information and the evidence on which you propose to act is of a reliable nature." Incidentally, without saying so in so many words, Mr Patel has implied that there should be no scope in the future for the tax administration indulging in the harassment of assesseees as a result of politically motivated instructions from above or for purposes not relevant to the proper administration of tax laws. Mr Patel's refreshing approach has promptly rendered obsolete the horror slogans concocted during the emergency promising hell in various descriptions to those who were unfortunate enough to be in possession of taxable income or wealth.

In the issue of May 2

I retailed a tale about how the rural bar project happened to become part of Mrs Gandhi's 20-point programme. The *Statesman*, in "Economic Notebook", Mr N.S. Jagannathan, one of its assistant editors, retold the story on June 9. When as I ventured to mention the name of the official said to be concerned, Mr Jagannathan, with becoming circumspection, has merely referred to a "senior official presenting to the then Finance minister a rather sketchy notion" for rural bars. There is, I believe, virtue in identifying individuals whenever one is commenting on them or on situations relating to them. This way unnecessary speculation about identities is avoided, while the particular person affected gets a chance to have his say, if he wishes to. All fair in love and war; but journalism must properly be less permissive.



MOVING FINGER

TRADE WINDS

Allocation of Work in Planning Commission

ALLOCATION of work among deputy chairman and three members of the Planning Commission has been decided. The deputy chairman, Dr D.T. Gadawala will look after plan coordination; general administration; financial resources; economic policy; international trade and development and Indo-Japan committee.

In addition he would also look after programme administration; education; social planning; health and family welfare, including nutrition and housing; urban development and water supply. Dr Gadawala will also look after information and public operation.

Prof Raj Krishna, member, Planning Commission, will look after information system; statistics and survey; perspective planning division; computer centre and data bank. He will also be in charge of employment and labour; manpower planning and technology clearance unit.

Mr V. G. Rajadhyaksha, member, Planning Commission will look after monitoring; project appraisal; industries and minerals including small scale industries, power and energy; transport and communication and research and development.

Mr B. Sivaraman, member, Planning Commission will look after agriculture; irrigation and rural development group;

village industries; plan implementation; multilevel planning and hill and tribal areas development.

Bill to Replace CDS Ordinance

The amount that will become payable on July 6, 1977 as second annual instalment—unless the Compulsory Deposit Scheme (CDS) of half of additional dearness allowance is scrapped—is Rs 326 crores, according to a bill which the Finance minister, Mr H.M. Patel, introduced in the Lok Sabha on June 11. The bill seeks to replace the ordinance that was promulgated last month to discontinue the CDS.

Of the amount, Rs 220 crores is towards principal and Rs 106 crores by way of accrued interest. A major portion of this amount will now be credited to the provident fund accounts of the employees and the rest will be paid in cash to employees who do not subscribe to any such scheme.

The financial memorandum to the bill says that reduction of the compulsory deposit scheme by two months from the overall period of three years had meant a lessening of the quantum of total deposits by approximately Rs 84 crores. Since deposits under the CDS Act carried a rate of interest of 2.5 per cent over and above the maximum bank deposit rate the total interest liability of the government would consequently be reduced approximately by Rs 31 crores.

The bill proposes to replace

the ordinance that provided for the discontinuance of the Compulsory Deposit Scheme with effect from May 6 last.

Anatomy of Recession

The most important cause for the demand recession was the government's drastic anti-inflationary policies such as credit squeeze, fiscal measures to impound part of the income of the people and pruning public expenditure. In 1975-76, the market for steel, cement, electric fans and some other items was adversely affected due to inadequate public sector investment. These findings are contained in a recent study made by the Economic & Scientific Research Foundation.

The study postulates that the economy in 1976 inherited sufficient capability to attain and sustain high growth rates due mainly to (i) higher rate of saving and investment, (ii) comfortable buffer stocks of foodgrains and (iii) unprecedented level of foreign exchange reserves. The performance in respect of foodgrains was particularly noteworthy.

Multiplier Effect

The trend in market arrivals in 1975-76 reflected a relatively easy food situation which should insulate the economy against any major aberrations in prices. A sizeable increase in agricultural income would mean that rural demand for some of the producer and consumer goods would pick up. The high level of foreign exchange reserves should improve the ability of the public sector to increase investment. Since public sector investment sets the tone for the economy, large public investment would have a multiplier effect and help faster growth.

In the course of the study

the author, Mrs Manashi Roy, states that recession in industry was not uniform but sectoral in nature. In this connection detailed analysis has been made of five industries i.e. fertiliser, cement, cotton textiles, fans and automobiles, and of broad industrial groups such as intermediate industries, basic, consumer goods, consumer durable goods and capital goods.

Defining recession as a state of the economy which experiences moderate downturns in production and employment, the study states that fall in output, however, does not necessarily constitute recession. It may occur due to supply constraints or when inadequacy of demand causes a decline in output in a significant segment of the economy.

Technology Clearance Unit

The Planning Commission is setting up a technology clearance unit which will choose and recommend appropriate technologies for every industrial sector on the basis of objective economic criteria. Economics of each technology will be studied and sufficient encouragement provided to the recommended technological process. This was stated by Prof Raj Krishna, member, Planning Commission, at an interview with AIR recently. The Planning Commission is starting work on the sixth Plan. This will be designed for very high employment generation and will aim at the provision of basic minimum needs of the bottom 40 per cent of population, mainly through public distribution system.

Indicating the priorities of their work in the immediate future, Dr Raj Krishna said that the focus will be on the

strengthening of the machinery of planning and project formulation for high employment at block level in the rural areas. Voluntary, academic as well as official, organisations will be asked to participate on a large scale in this task. Definite proposals will be evolved very soon. Planning Commission has begun to explore, in detail, the possibilities and the economic implications of extending, in suitable phases, a work-guarantee scheme to different regions of the country. The Employment Division of the Commission will carry out region by region surveys to study the economic implications.

Committee on Banks

The Reserve Bank has set up a committee under the chairmanship of Mr James S. Raj to study all aspects of the functioning of public sector banks and in the light of such findings, make recommendations on the same. The other members of the committee are: Mr V.C. Patel, Mr T.D. Kansara and Mr B.K. Dutt. Miss N.K. Ambegaokar (Reserve Bank of India) will act as secretary to the committee. The terms of reference of the committee are as follows:

To assess the impact of branch expansion that has taken place since 1969 and to examine whether any change in the tempo and direction of such expansion is called for; To enquire into the present pattern of branch expansion of public sector banks and to suggest the future course of action keeping in view the need for rural development and removal of regional imbalances; To evaluate the performance of public sector banks in the matter of lending to the priority sectors and weaker sections of the society and to suggest ways for

the orderly and balanced growth of such advances; To advise on improving the efficiency of banks with a view to rendering better and speedy service to the public; To examine the operation of vigilance work in the banks and to make recommendations to bring about improvements; and To make any other recommendation germane to the subject of enquiry.

FICCI Delegation to Seoul

Mr B.P. Poddar, president, Federation of Indian Chambers of Commerce & Industry, lead a seven-member delegation to Seoul, to participate in the council meeting of the Confederation of Asian Chambers of Commerce & Industry (CACCI) and the first meeting of the India-Korea Joint Business Council from June 13 to 16, 1977. The India-Korea Joint Business Council had, on its agenda, questions relating to expansion of Indo-Korea trade, industrial project cooperation in the two countries as well as in the third countries. The possibilities of bilateral and trilateral approaches to development in the region were explored. Mr D.C. Kothari is the first Indian president of CACCI which is an autonomous regional organisation of national chambers of commerce in the region, constituted in 1966. Since November 1976, the secretariat of CACCI has been functioning from New Delhi, headed by Mr P. Chentsal Rao, secretary-general of FICCI.

The CACCI council considered the state of economies in different member-countries and also took a perspective view of the economic profile of Asia and the Pacific region. The council also plans, in detail, the publication of an Asian Business Directory—the first of its

kind to be brought out. This directory will not just be a year-book but will cover topics of interest to business and governments both in and outside the region.

Mr D. C. Kothari and Mr P. Chentsal Rao had discussions in Tokyo with the Japan Chamber of Commerce and Industry, *en route* to Seoul. The other members of the delegation were Messrs Arvind Narottam Lalbhai (Ahmedabad), Milan Sen (Calcutta), Kan D. Mariwalla (chairman and managing director, NIDC), and Waris R. Kidwai (secretary, SCOPE)—the last two being the representatives of the public sector.

Guidelines for Bonus Issues

One of the guidelines prescribed in the examination of bonus issue proposals from companies is that the bonus issue is permitted to be made out of free reserves built out of genuine profits or share premium collected in cash only. It is observed from the statements of accounts of some companies that when there is a change in the method of depreciation, e.g. from the reducing balance method to the straight line method, they do not disclose the deferred taxation liability. Further, the provision for depreciation made by the companies is not in consonance with the claims submitted by them before the income-tax authorities. As a result, in such cases, the free reserves shown in the balance sheets do not reflect the true position. It has, therefore, been decided that in future companies submitting proposals for capitalisation and issue of bonus shares should adhere to the following guidelines also: (i) A certificate should be furnished from the auditors of

the company that adequate provision for depreciation has been provided in the accounts of the company as allowed under the Income-Tax Act. (ii) If there is a change in method of depreciation, companies should further ensure that adequate provision for deferred taxation liability is made and the audit certificate to this effect should also be furnished along with the application for bonus issue.

Award for EIL

The 1976 national award for excellence in process design and engineering in the chemical field has been won by Engineering India Ltd (EIL), a public sector consultancy organisation. The award is instituted by the Indian Chemical Manufacturers' Association. EIL has over the years developed basic engineering capabilities for designing most of the large petroleum refining processes and a few basic petrochemical processes. Today, the organisation is capable of providing planning studies for industrial projects, process design and detailed engineering procurement services, construction supervision and plant start-up services.

Solar Energy Grain Dryer

India's first solar energy grain dryer designed by National Industrial Development Corporation for the department of Science and Technology is being installed at Central State Farm, Ludhiana. Built at a cost of Rs 2.5 lakhs, this dryer has a capacity of about 10 tons per day. Successful trial runs have already been made. The solar energy grain dryer will be effective for 85 to 90 per cent of the days during main harvesting sessions.

operational even on days though at a reduced capacity. Cost of drying in dryer is Rs 6 per tonne as compared to Rs 100 by using old system.

Additional practice of drying grains in the fields and yards by direct exposure to sunshine involves risks of crop damage and losses in the fields. The total loss of grains during drying in the fields is estimated to be around 1 million tonnes. The preliminary analysis of the use of the solar energy shows that there is a high demand for this due to its high efficiency, low operating cost and minimal maintenance requirement. The solar grain dryer will have many applications particularly in organised agricultural production in industries such as rice mills, dal millers, oil millers, for fruits and for farmer co-operatives, state farms, seed production, FCI, etc.

National Industrial Development Corporation is planning to instal two more grain dryers, one in eastern part of the country and another in Kerala in near future. The first prototype with one tonne per day capacity was developed at the Tamil Nadu Agricultural University by Prof. S. S. Chuvpiperappan.

Imported PVC for Small Units

Measures to meet the present shortage of PVC were discussed recently at a meeting of the manufacturers of PVC resin as well as the representatives of the industry. The meeting was convened by Mr I.C. Puri, Additional secretary in the Ministry of Industry and Development, Government of India. It was decided at the meeting that: Out of 10 tonnes of material being imported by the State Chemical

& Pharmaceutical Corporation of India, such of the small scale units as have registered their requirements upto six tonnes of PVC per quarter would be allocated full quantity without any cut. The balance of the imported material would be distributed among other units, who have registered their requirements for the year 1976-77, on pro-rata basis, subject to a minimum allocation of six tonnes per quarter.

The unlifted quantity of the material would be distributed by CPC on 'first come first served basis' according to the date of registration. Till such time the imported material starts arriving, the raw material manufacturers voluntarily agreed subject to adequate power supply, to supply full quota of PVC to such units whose allocations on past off-take basis worked out to not more than two tonnes per month.

Delhi Factory Owners Meet

Lieutenant Governor of Delhi, Mr D.R. Kohli has initiated re-thinking on a number of issues which have handicapped the local industry in the past. As a first step, industrial land prices may be reduced. A decision has also been taken to exempt industrial land upto a limit of 1,000 square metres from the provisions of the Urban Land Ceiling Act. Disclosing this recently at the annual general meeting of the Delhi Factory Owners Federation, the Lieutenant Governor pointed out that the administration had decided to review the master plan. The basis of the entire plan was to undertake orderly and regulated growth of the capital, but it was not an end in itself. "Wherever it does

not conform to certain human values, the plan would have to be altered," he said.

Earlier, delivering the presidential address, Mr Vineet Virmani proposed that wherever industries were to be shifted from non-conforming areas, land should be allotted on a land-to-land basis or at subsidised rates. Loans on softer terms towards building costs and grants for operational costs were essential ingredients of the inducement programme. He also regretted that no progress had so far been made with regard to implementation of National Capital Region Plan, which had suggested the development of nodal points.

IDA Credit For Irrigation Project

The International Development Association (IDA), an affiliate of the World Bank, is extending a credit of US \$23 million to help finance rehabilitation, modernisation and extension of an irrigation system in Tamil Nadu. The \$46 million project is designed to minimise water losses in conveyance and operation of the Periyar-Vaigai irrigation system in Tamil Nadu. Water savings will be used to introduce double irrigation and to bring new areas, presently rainfed, under irrigation for the first time. At full development, the project is expected to increase annual rice production by about 60,000 tons resulting in \$13 million in value added to the local economy and in net foreign exchange savings of \$9.6 million a year. The project will also generate about 20,000 man-years of agricultural employment.

The Food and Agricultural Organisation (FAO) of the United Nations joined the government of Tamil Nadu in preparing the project under the

World Bank/FAO Cooperative Programme. The IDA credit to India is for a term of 50 years, including 10 years of grace. It is interest free, except for a service charge of 3/4 of one per cent to meet IDA's administrative costs. The proceeds of the credit will be channelled to the government of Tamil Nadu in accordance with the government of India's standard terms for the financing of state-development projects.

IDBI Bonds Oversubscribed

Total subscriptions to the ten-year six per cent Industrial Development Bank of India bonds (ninth series) amounted to Rs 55.00 crores as against the notified amount of Rs 50.00 crores. The IDBI is retaining subscriptions up to ten per cent in excess of the notified amount. The issue which opened on June 6, 1977 was oversubscribed and was closed on the same day.

Tyre Manufacturers Freeze Prices

Major tyre manufacturers such as Goodyear, Ceat, Firestone and Dunlop, who account for about 80 per cent of the tyre production in the country, have agreed not to raise the prices of tyres and tubes following government persuasion. Other companies are expected to follow suit. This was the outcome of prolonged discussions between tyre manufacturers and Dr A.K. Ghosh, additional secretary, Industry ministry, who had summoned them to Delhi following the reported move to unilaterally increase the prices.

The representatives of both multinational and Indian tyre companies, who were present at the meeting were informed of the government's concern

over their reported move and were asked to desist from taking the step.

Steel Plants and Ancillary Industries

Bhilai, Durgapur, Rourkela and Bokaro are today sprawling steel towns humming with industrial activity. Several industrial estates have also grown around them. There are 326 small-scale industries around these towns, mostly owned and managed by young entrepreneurs who ventured into industry expecting that the growth of small-scale industries around these giant industrial towns was imminent. There are 52 ancillary industries registered with the Bhilai steel plant. They have grown steadily during the past decade. Sixty units cater to the needs of the Durgapur steel plant and the alloy steels plant. The number of small-scale ancillary units at Bokaro is 112, even though the plant's first stage of 1.7 million tonnes has been completed only recently. The expansion to four million tonnes is now in progress. There are already 102 small-scale industrial units in the Bokaro industrial area.

In order to encourage the growth of these industries, the Steel Authority is implementing a programme of rapid indigenisation of the steel plants' requirements of spares and stores. The import substitution units in all the plants have prepared catalogues of spares which could be indigenously produced. Local entrepreneurs are being encouraged to take up their manufacture.

There are ancillary industry advisory committees which comprise of a senior officer of the plant, representatives of the state government, the Small Industries Service

Institute and the concerned Directorate of Industries. Generally, these committees are headed by the chief executive of the concerned plant. These committees regularly review the position relating to the growth and development of the ancillary, small-scale and medium-scale industries. During the period 1969 to 1971, the total purchases from these units by the Bhilai steel plant amounted to Rs 35.5 lakhs. Today, the value of these purchases is around Rs 2 crores. At Rourkela, only six years ago, the value of purchases by the plant directly from these units amounted to about Rs 50 lakhs. This has now gone up to Rs 3.5 crores annually. A good beginning has also been made at Bokaro, where ancillary units supply products worth Rs 2.5 crores annually. Apart from giving them the necessary knowhow, the plant authorities provide them with working drawings and enter into long-term contracts for supply of such items.

Approval of Labels for Foods Articles

In accordance with the provisions of the Rule 37-A of the Prevention of Food Adulteration Rules, 1955, all types of proprietary foods, where fancy names or trade names are used, and which cannot be classified in any of the standard prescribed in Appendix B of the Prevention of Food Adulteration Rules, 1955, the names of the ingredients used in the product in descending order of composition are to be indicated on the label, subject to the approval of the Central Committee for Food Standards. All manufacturers have been advised to submit their labels to the "Secretary, Central

Committee for Food Standards, Room No. 559, 'A' Wing, 5th Floor, Nirman Bhawan, New Delhi-11" latest by July 31, 1977, for approval under the provision of the rule, otherwise they are liable to penal action.

New Varieties of Paddy

By advancing the time of sowing through community nursery programme and cultivation of short duration high yielding varieties of paddy, the vast tract comprising the states of Uttar Pradesh, Bihar, West Bengal, Madhya Pradesh and Orissa can easily double its yield. If the crop of rice has to depend solely on rainfall, a monthly rainfall of not less than 30 cm per month spread over at least three consecutive months could be considered minimum. This vast area has more than 30 cm of rainfall per month in two consecutive months of July and August and 20-30 cm in September.

The rice area in this tract represents about 45 per cent of all-India total, but the yields are very low. The main reason is that farmers generally grow longer duration varieties i.e. 134-145 days. The long duration varieties run the risk of suffering from drought at maturity. September rainfall is less and sometimes it withdraws early. As such the long duration crop of rice suffers for want of water at the most crucial time in its development.

The problem is to adjust sowing time and duration for getting the maximum advantage of natural rain-water. This can be easily solved by advancing the time of sowing through community nursery programme and cultivation of high-yielding varieties of 100-125 days dura-

tion. The peak growth development process in case of short duration high-yielding varieties will be over by the end of August for June transplanted crop and by September for July transplanted crop. Moreover the fields will be vacated early for rabi land preparations and wheat, potato and other rabi crop can be sown on time.

Names in the New

Mr K. G. Appusamy, deputy managing director, Air India has been appointed as chairman-cum-managing director of Indian Airlines on a purely temporary basis, in place of Mr A. H. Mehta, who is succeeding on 154 days' leave from June 11, 1977. Appusamy will be performing these duties, in addition to his own duties, till a permanent arrangement is made for the post in the Indian Airlines.

Mr S. D. Deshmukh, deputy director, Reserve Bank of India, Bombay has been elected by India, Bangladesh and Sri Lanka as the executive director of the International Monetary Fund from the constituency. The vacancy was caused by the death of Mr M. G. Kaul.

Mr Lalit Mohan Tiwari has been elected chairman of the Punjab, Haryana and Chandigarh Chamber of Commerce and Industry. Mr Thapar is chairman of Ballarpur Industries Ltd, Greaves Cotton Ltd, Bengal Ingot Company and director of a number of companies including Greaves Ltd., Jagatjit Textile Mills Ltd, Central Bank of Commerce Ltd, J. K. Industries Ltd.

Mr R. R. Bareja has been elected president of the Pump Manufacturers' Association for the ensuing

Readers' Roundtable

Prime minister

In *Eastern Economist* May 27, 1977, I have V.B.'s comment on the minister in the "Moving" column. I must say this is a good piece of g.

M. D. Dalmia

Delhi

urbing inflation

—With reference to the prandum submitted to the minister by Professor Vakil, along with Dr P.R. nananda, on "Inflation sal and Guaranteed Price ity", (which was repro- l in *Eastern Economist* ay 13), a note issued by Vakil may be of interest ur readers.

f. Vakil has fundamental ence with the policy re- ng interest rate announced he Reserve Bank on 27. He has drawn the atten- of the prime minister to fact that (a) excess money ly is the arch devil in the nt inflationary situation s 8 and 9 of the Memo- um); (b) that restriction of ey supply does not come e way of growth (para 17); (c) that restraint by all es is absolutely essential. eels that it will not be pos- to ask labour and others ave restraint if business ndustry are given conces- . He suggests that the rnment should declare a an inflation and ask for opiny discipline from all. is opinion, the gesture of e industrialists to help cont- rices will not have a signi- t impact on the price level. as submitted a Note on

Interest Rates in which he and Dr Brahmananda justify higher rates of interest as part of an anti-inflationary policy as under:

"There are a number of reasons why some rise in interest rates is necessary at the present juncture.

(1) In view of the large expansion in money supply and other financially liquid assets, and the shortage of many essential commodities, the markets are expecting the prices to go on moving up. If interest rates are not raised, it will pay commodity-speculators to use liquid finance for hoarding goods and thus to profit from the rising trends in prices. Interest charges are important in the cost of holding of stocks of goods. If in a period of rising prices, interest is not moved up, the cost of hoarding would become *relatively*

cheaper and hoarding will be encouraged.

(2) A rise in interest will lead to a *collapse* of expectations concerning the continuance of easy money policy. The expectational effect is very powerful and operates effectively in India.

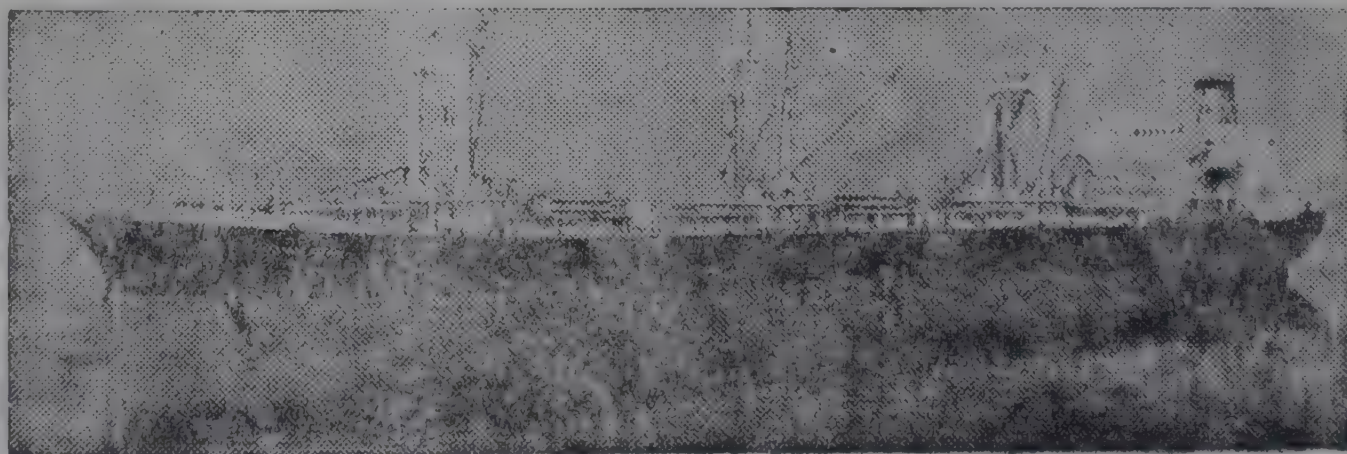
(3) At present market values of shares are moving up due to expectation of a *fall* in interest. This has raised the collateral value of shares and has strengthened the atmosphere regarding easy credit-availability. A fall in share-values will not necessarily affect real investment. Past experience demonstrates that the movement of share values does not portray any real trends in investment.

(4) At present financial institutions are able to obtain deposits from holders of liquid assets. The flow of deposits

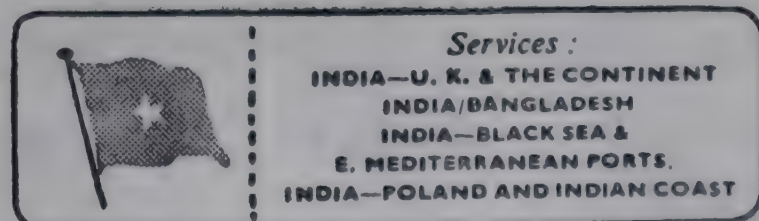
to banks and thus the growth of savings will be checked by any fall in interest rates. Actually under conditions of excess-liquidity as prevailing now, a rise in interest rates helps to canalise funds to the financial institutions and thus strengthens the authorities' power to canalise the use of funds.

(5) Interest as a cost item is small and therefore unimportant to industries; but it is important for activities which deal in stocks of goods. It is in the latter case that the dis- hoarding effect will be powerful if interest rates are raised. In general also, the stock-holding propensity will get weakened if interest is pushed up. The practical experience of companies in India demonstrates very clearly that the rising trend in interest has helped to turn firms away from banks to other sources such as (a) less holding of stocks, (b) own-savings, (c) other sources of finance etc.

(6) High interest does not



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by itself come in the way of development of the new issue market.

(7) It is well known that lower interest will stimulate capital-intensive industries thus increasing unemployment. The easy availability of bank finance and relatively low interest have helped to increase capital-intensity and waste of capital has ensued as a consequence."

A Correspondent

Bombay

(Printed copies of the memorandum on "Inflation Reversal and Guaranteed Price Stability" are on sale at Rs 12 per copy and they may be had from Vora & Co., Publishers Pvt. Ltd., 3, Round Building, Princess Street, Bombay-400 002—Ed).

Enrolement to Janata party

Sir—Reference V.B.'s 'Moving Finger' piece in the May 20 issue of *Eastern Economist*, I thought of enclosing a copy of the press statement that I had released on May 12, regarding admission of persons into the Janata party. This might interest your readers.

V.B.'s comments on the prime minister's press conference, and particularly the need for the reporters to do a good professional job, are very apt. I have heard from some who were present at the press conference of the prime minister in Bombay that the press did not seem to be either serious or trained well enough to ask questions of real importance.

Bombay **Viren J. Shah**
The press statement issued by Mr Viren J. Shah. MP,

Rajya Sabha and member of Janata working committee and referred to above is reproduced below:

"In view of the influx of a large number of people from other parties, particularly from the former ruling party, into the Janata party, its working committee decided at its meeting this week that anyone and everyone should not be allowed membership of the party.

The party's state committees have been given the power to refuse admission to "undesirable" elements who have a bad image or charges of corruption against them, or those who are known for their role in the atrocities committed during the emergency.

A screening committee, to be appointed by the working committee, will go into the background and past records of each applicant. To become a

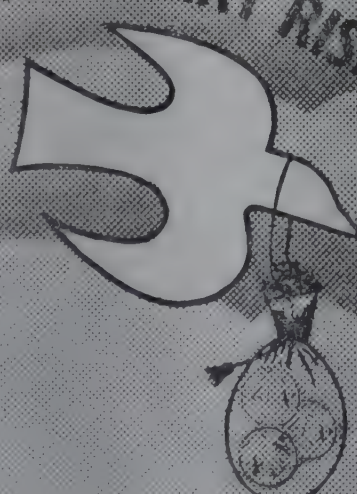
member of the Janata party, a person would first have to come a member of the state district unit of the party.

The state committees, however will not have absolute power to reject applications. The screening committee will entertain appeals by individuals against rejection.

These safeguards will prevent the party from becoming a conglomeration of all kinds of elements who are only too ready to get to positions of power. It will take into its ranks only people of character and integrity. This will enable the party to maintain its own identity.

The party, like during the Lok Sabha elections, will not collect money from the common man on as wide a scale as before, for which coupons of various denominations were issued at various party offices.—Ed.

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COMPANY AFFAIRS

Alloy Steels

OPERATIONS of Bihar Steels Ltd during the ended December 31, 1976 not been satisfactory mainly to the depressed conditions, technical problems and shortage of material for meeting working requirements. In spite of the company's best efforts damaged control panels, transformer tap changer of the arc furnace No 1 to be replaced and the furnace recommissioned only in November, 1976. The repairs of the control panel of furnace No 2 were replaced simultaneously. The working shows improvement since November 1976, it is still not completely satisfactory, as the company's technical personnel had to struggle to develop techniques for the manufacture of various categories of tool and special steels. This has naturally resulted in considerable loss and delay.

Products

To a larger extent, the company has succeeded in its efforts and has manufactured several difficult grades of alloy steel to exacting quality standards. Efforts in this direction are still continuing.

The company has also developed the various casting parameters for the continuous casting of alloy steels including stainless steel and it is heartening to note that, as a result

of the company's strenuous efforts, the company's products from the continuous casting machine, although new in the country, are now well received in the market, due to certain superior mechanical properties. With the experience gained, the company is hopeful of further developing high cast steels such as high speed steels, die blocks and stainless and alloy steels in wire rods etc during the current year.

Production of carbon, alloy and special steel/ingots continuous cast blooms aggregated to 19,477 tonnes in 1976. The output of finished carbon, alloy and special steels was 12,211 tonnes and the total despatches were 11,454 tonnes.

Heavy Losses

The working of the company during the year has resulted in a cash loss of Rs 247.03 lakhs mainly due to under-utilisation of capacity for the reasons mentioned earlier. After adding to this, the sum of Rs 210.65 lakhs provided for depreciation on straight-line method and Rs 2.10 lakhs for preliminary and share issue expenses written off, the total deficit is of the order of Rs 459.78 lakhs.

As far as the additional term loan of Rs 400 lakhs, it has now been decided by the Reserve Bank of India that a term loan will be provided by the financial institutions to the extent of Rs 250 lakhs and the balance of Rs 150 lakhs will

be provided by the company's bankers.

Indian Hotels

The Indian Hotels Company Limited has once again reported excellent working results for the year ended March 31, 1977.

The company has made further progress during the year. The total revenue rose from Rs 860.79 lakhs to Rs 1076.62 lakhs or by 25 per cent over the previous year. After providing Rs 51.76 lakhs for depreciation and Rs 46.35 lakhs for interest, the company's profit before tax was Rs 179.50 lakhs as compared to Rs 137.91 lakhs in the previous year, reflecting an increase of 30 per cent. The company has made a provision for tax of Rs 75 lakhs as compared to Rs 33 lakhs in the previous year.

The directors of the company have recommended, the payment of dividend of Rs 9.30 (previous year Rs 9.30) on the 9.3 per cent cumulative redeemable preference shares of Rs 100 each and a dividend of Rs 2 (previous year Rs 2) on the ordinary shares of Rs 10 each. It may be noted that after the issue of 7,20,000 bonus shares, the ordinary capital of the company has increased from Rs 1.80 crores to Rs 2.52 crores and the dividend of Rs 2 per ordinary share has been recommended on the increased capital. It is expected that the dividend for the year 1976-77 will also be partially exempt from income-tax.

The construction of a 350 room hotel of international tourist standards in collaboration with the New Delhi Municipal Committee at No 1, Mansingh Road, New Delhi, is in progress. The com-

pany's new project, the flight kitchen at Santacruz airport set up in early 1976 is now catering to many international airlines apart from catering to Indian Airlines and is comparable to some of the best flight kitchens in the world.

Besides the Taj Mahal Hotel and the Taj Mahal International Hotel owned and operated in Bombay, the company also operates the Lake Palace Hotel in Udaipur, the Rambagh Palace Hotel in Jaipur, the Taj Coromandel Hotel in Madras, the Fort Aguada Beach Resort in Goa, the Fisherman's Cove at Covelong near Madras and the Pandyan Hotel at Madurai, the last being the new addition to the Taj group of hotels.

Mahindra Spicer

Mahindra Spicer Limited (formerly Turner, Hoare & Co Ltd) have announced the results for the year ended January 31, 1977. These show all round improvement with income at Rs 577.69 lakhs registering an increase of 16 per cent over Rs 498.95 lakhs in the previous year. The profit before tax was 17 per cent higher at 33.43 lakhs as against Rs 24.06 lakhs in the preceding year.

The dividend has been maintained at 10 per cent and the reserves and surplus stand at Rs 45.07 lakhs, higher by 22.3 per cent over the previous year's figure of Rs 36.85 lakhs.

The company continues to maintain its position as the country's leading manufacturer of KI hydropneumatic and hydraulic ash handling plants and travelling water screens for thermal power stations. Orders in hand, at the year end, for these items amount to Rs 627 lakhs. Tenders for about Rs 10 crores submitted

by the company are under consideration by major purchasing authorities.

The Spicer products division of the company achieved a substantial increase in the manufacture and sales of automotive clutch assemblies in collaboration with internationally renowned Dana Corporation of the USA. These products are now being exported to Europe and the far east and it is expected that exports will show significant growth during the current year.

The company holds a letter of intent, and has obtained the foreign collaboration approval, for the manufacture of 200,000 propeller shafts, 50,000 axle shafts and 900,000 universal joint kits per annum in collaboration and partnership with the Spicer Universal joint division of the Dana Corporation of the USA. Land has been acquired in the Satpur Industrial Estate of the MIDC in Nasik district and construction is in progress.

Foreign Collaborator

The paid-up capital of the company is expected to be enhanced to Rs 125 lakhs to meet a part of the cost of this project. Consent from the Controller of Capital Issues has been received. The collaborator, Dana Corporation, will be issued Rs 27.984 lakhs and Mahindra and Mahindra Limited, the Indian promoter, Rs 14.81 lakhs out of the additional equity of Rs 84.80 lakhs. The remaining of Rs 42.006 lakhs will be issued to the public.

The balance requirement will be financed by an interest free loan of Rs 55 lakhs from SICOM, financial assistance to the extent of Rs 110 lakhs

from financial institutions and a bank, and internal accruals.

The company has also fared well in other areas of its activities such as agency lines and the manufacture of Sharples separation equipment.

Hindustan Lever

Hindustan Lever has reported impressive improvements in its working results during the year ended December 31, 1976. Sales during the year were higher at Rs 212.99 crores as compared to Rs 205.97 crores in 1975. The income from sales of soaps and detergents rose from Rs 143.26 crores to Rs 145.36 crores while the revenue from sales of chemicals, animal feeds, toilet preparations and others went up from Rs 26.18 crores to Rs 36.63 crores. The proceeds from sales of edible fats and others foods was, however lower at Rs 31 crores as compared to Rs 36.53 crores in 1975. The profit before tax amounted to Rs 19.70 crores as against Rs 15.07 crores in the previous year while the profit after tax recorded a smart rise to Rs 6.95 crores from Rs 4.77 crores in 1975. The directors have recommended an equity dividend of 20 per cent for 1976. This will absorb Rs 337.06 lakhs.

During the year the company was able to extend the use of non-conventional oils in the manufacture of higher quality toilet soaps by developing special processes and catalysts. R&D support contributed significantly to the increased profitability of all parts of the business.

The company's R&D resources are increasingly being harnessed to develop new technologies relevant to the country. For example, the company is now operating a pilot plant for

the manufacture of synthetic fatty acids from petroleum wax which should replace oils in the manufacture of soap. This process will be scaled up in stages.

The total recurring expenditure on R&D during 1976 was Rs 116 lakhs and capital expenditure to date has been Rs 267 lakhs. The company has won the Sir P.C. Ray Award for developing indigenous technology for the year 1976.

The company continued to intensify its export efforts. Export turnover improved further to Rs 17.07 crores covering 38 countries in 1976. This turnover does not include sales to Nepal and Bhutan amounting to Rs 44 lakhs in 1976. The company was awarded the top export award for its performance in 1975-76 by the Basic Chemicals, Pharmaceuticals and Cosmetics Export Promotion Council. The company also won the Indian Merchants' Chamber Award for outstanding export performance for the year 1975.

Indigenous Plant

The ossein project at Taloja was commissioned in August 1976. Products from the factory are being exported to the USA, Japan, Europe and Australia. The synthetic detergents plant at Bari Brahamana in J & K state was commissioned in February 1977. This was the first entirely indigenous detergent plant in the country and also the largest chemical industry in J&K state. Detailed engineering work on the Haldia project is in progress and work on the site has commenced. A total of Rs 27.64 crores will be invested in these projects.

The company has obtained the consent of Controller of

Capital Issues to issue 50,20, new equity shares (including right shares in the proportion of one new share for every ten existing shares held) at a premium of Rs 6 per share. Necessary steps are being taken by the company to issue new shares exclusively to investors in India.

Escorts

In 1976 Escorts Ltd surpassed all its previous records, with sales exceeding Rs 880 million and total income crossing Rs 909 million. The company's sales went up by 10 per cent while profitability before taxation shot up by 60 per cent to Rs 81 million from Rs 54 million in 1975. To a larger extent the increase in profitability was due to the control of tractor prices which permitted the company to make up a reasonable profit on tractor production.

The all-round improvements in its working results have enabled the directors to enhance the equity dividend to 16 per cent against 12 per cent declared in 1975.

Despite the general suppression of demand in the tractor market caused by the heavy tax-laden prices, the company's sales of tractors improved impressively to 9881 units from 9659 units in 1975. Sales of piston assemblies increased 26 per cent over the previous year and that of Raj motorcycles and scooters increased from 24,476 units in 1975 to 26,002 in 1976. There was a steady overall increase in sales in almost all product lines handled by the company.

The company's export sales during the year including varieties under World schemes, were over Rs

es. Product range was further enlarged to cover tractors and farm implements, piston assemblies, railway and automobile ancillaries etc besides several non-company products and services handled as 'export house'. Performance of both Ford and Escort tractors as well as agricultural implements exported to Afghanistan and Nepal was quite encouraging thus bringing in repeat orders. The next export order expected from Afghanistan in the wake of international competition is for 300 Escort tractors.

Expansion Plans

The plans for expansion of piston and piston pin plant are finalised during the year. The construction of building at Bangalore is going on satisfactorily. Efforts are being made to commence production by November 1977. The expansion plan of Goetze (India) is also progressing satisfactorily adjoining Escorts piston and piston-pin plants at Bangalore.

CGR India Ltd, a joint venture with a reputed firm of France, having its plant at Santa Cruz Electronic Export Processing Zone, Bombay commenced production in the year under report. The company has exported its products worth Rs 50 lakhs upto March 1977.

The plans to form a company to manufacture automobile shock absorbers in Iran are at an advanced stage. The company's investment in the total share capital of the Iranian company will be 25 per cent.

Through accelerated activity, the company's R & D has introduced the four-wheel drive tractor, the first of its kind in the country. A new low

priced tractor was also introduced to suit the purchasing capacity of the average farmer.

The company has acquired near its existing plants at Faridabad, an area at a cost of Rs 43 lakhs for scientific research activities. This Scientific Research Centre, already in operation from March 1977, will undertake designs of special farm tools and animal-drawn implements as also projects for utilising agricultural waste or available resources of rural areas with the objective of improving the living standards and agricultural productivity in villages.

Besides the company has

contributed towards a special study undertaken by the Associated Chambers of Commerce & Industry of India for setting up different models of activities to develop the rural life and agricultural productivity. This report, when ready would be very useful to the organised industrial sector which must now participate, more actively than before, in rural development of the country by helping to establish ancillary industries in rural areas based on skills and raw materials of each area. In this direction the company is working very closely with the state governments as well as the Rural Development department of union Agriculture ministry and

has already adopted a village, Sikri near its Faridabad plant.

Goodyear

Despite adverse market conditions due to a depressed road transport industry, Goodyear India's production declined only 3.8 per cent for the year ended December 31, 1976. However, sales declined 15 per cent to Rs 55,42,00,942 reflecting unremunerative domestic prices and extremely low world prices for exports. Sales were also restricted due to production problems encountered by several suppliers of industrial products.

After providing for taxation of Rs 76,66,000 and investment allowance reserve of Rs 6.50,000

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the available surplus of Rs 19,17,744 is being appropriated, alongwith Rs 34,27,146 transferred from general reserve, for the proposed dividend payment of Rs 53,44,890.

The directors of the company have recommended a dividend of Re 1.00 per equity share for the year 1976. The bonus share issue of two shares for every five held, will not qualify for this dividend.

Export earnings increased substantially from Rs 2.6 lakhs in 1975 to Rs 1.2 crores in 1976. Although exports in 1976 were unprofitable, they were undertaken in the national interest.

News and Notes

The Gujarat Industrial Investment Corporation has recently sanctioned assistance of Rs 24 lakhs in a project for manufacture of malleable iron pipe fittings with an installed capacity of 1,300 tonnes per annum. The products find application in construction, mining and petro-chemical industry and public water supply system.

The project will generate a total investment of Rs 100 lakhs at Ankleshwar in the backward district of Broach which include a total share capital of Rs 25 lakhs to be raised and Rs 13 lakhs as central subsidy for setting up the project in a backward district.

New Issues

Banswara Syntex Ltd has been promoted by Rajasthan State Industrial and Mineral Development Corporation Ltd, (RSIMDC) jointly with the technocrat Mr R.L. Toshniwal with the main object of setting up a textile mill of 12,480 spindles for spinning synthetic blended yarn. This joint sector project will be set up in the industrial area of Banswara

which has been declared as a industrially backward area by the government. The area is quite sufficient to meet the present requirements as well as the future needs of the company.

To raise part of the resources required for the implementation of the project the company is offering 8,78,593 equity shares of Rs 10 each, out of which 2,98,593 equity shares are reserved for firm allotment to Rajasthan State Industrial and Mineral Development Corporation against which Rs 14.93 lakhs has already been received as advance towards shares application and allotment money. The remaining 580,000 equity shares of Rs 10 each are now offered for cash at par to the public for subscription. The subscription list for this fully underwritten issue opens June 20 and will close on July 1 or earlier but not before June 22.

Equity Base

The project is estimated to cost Rs 366 lakhs and it will be financed by the promoters' contribution towards the equity share capital of Rs 64.00 lakhs, proceeds from the public issue of Rs 58.00 lakhs and term loan of Rs 109.00 lakhs from IDBI, Rs 65.00 lakhs from IFCI, Rs 45.00 lakhs from ICICI and Rs 25.00 lakhs from LIC.

The demand for synthetic fabrics is much on the increase due to its durability, easy care properties, and change in common man's taste towards cloth due to bent of people towards urbanisation. The position has further improved due to government allowing free import of synthetic fibres under Open General Licence. With 20 years textile experience of Mr R.L. Toshniwal the yarn produced by the project is likely to be of very

good quality and shall have better marketing prospects.

The company is expected to have a fairly good future and the directors are of the opinion that barring unforeseen circumstances the company will be able to declare a handsome dividend within a reasonable period of time after commencement of the commercial production.

Capital and Bonus Issues

Consent has been accorded to four companies to raise capital. The details are :

Tata-Finlay Limited, a public company having a paid-up capital of Rs 13 million has been accorded consent for issue of further capital of Rs 47 million in equity shares of Rs 10 each to be issued as to shares worth Rs 19.8 million credited as fully paid-up to seven sterling tea companies in consideration of part payment of the sale of these undertakings and business in India to the company and the balance

of Rs 27.2 million for cash par to Tata Oil Mills Company Limited/Investment Corporation of India Limited and Rs 26 million to the general public by prospectus. The proceeds will be utilised for the acquisition of the undertakings and business in India of James Finlay and seven sterling tea companies. The consent order is valid for 18 months only.

Luxmi Tea Company Limited, Calcutta, has been accorded consent, valid for six months to capitalise Rs 800,000 out of its general reserve and issue fully paid equity shares of Rs 100 each as bonus shares in the ratio of one bonus share for each equity share held.

Essar Bulk Carriers Limited, Madras, has been refused consent for the issue of bonus shares worth Rs 5,851,470 only.

The A.P.V Equipment Corporation Limited, Bombay, has been refused consent, for issue of bonus shares worth Rs 450,000 only.

Dividend

Name of the company	Year ended	(per cent)	
		Equity dividend declared for	
		Current year	Previous year
Higher Dividend			
Curewel (India)	Dec. 31, 1976	15.0*	N
Shivaji Works	Dec. 31, 1976	10.0	6
Fuel Injections	Dec. 31, 1976	7.5	6
Haileyburia Tea Estates	Dec. 31, 1976	15.0	6
Star Textile Engineering Works	Dec. 31, 1976	12.0	10
Rolcan Engineering Co.	Dec. 31, 1976	15.0	N
Same Dividend			
Devidayal Electronics	Dec. 31, 1976	Nil	N
Indian Hotels	March 31, 1977	20.0**	20
Borosil Glass Works	Dec. 31, 1976	10.0	10
Reduced Dividend			
Gaekwar Mills	Dec. 31, 1976	Nil	5
Graphite India	Dec. 31, 1976	14.0**	18

*Maiden dividend. **On the enlarged capital.

Stewarts and Lloyds India Ltd.

Chairman's Statement

I am happy to be able to report another successful year, despite highly competitive market conditions with too many peoples chasing the limited business available. As envisaged in my statement last year, your Company not only added on to the gains achieved in the previous two years, but was in fact able to improve on them during the year. This is undoubtedly the re-



Mr S.L. Dass

...t of the success of our sustained efforts over the past few years to gear our skills not only to what the market demands, but more so towards the sophisticated needs of industry in the field of pipework engineering and construction. While, therefore, the sales turnover of the year of Rs 674.19 lakhs represented a reduction of 13.4 per cent from the previous year's turnover of Rs 778.76 lakhs, the profit before taxation increased from Rs 48.54 lakhs to Rs 57.38 lakhs. This improvement of 12 per cent in profit despite reduction in the sales turnover, as also a drop in the total

tonnage of production, clearly shows that the Company handled a more sophisticated mix of orders and operated at a higher pitch of all round efficiency during the year.

The shortage of credit available to the engineering industry has over recent times been identified as one of the most serious constraints being faced by the industry. Against this background, it is gratifying that we have made considerable progress towards improving our liquidity position. You will be glad to know that during 1976, through a relentless drive your Company was successful in reducing the bank overdraft from the level of Rs 135 lakhs at the end of December, 1975 to a mere Rs 10 lakhs at the end of December, 1976.

The finalisation of the fifth five-year plan involving increased outlays in the sectors we serve was announced by Government at the beginning of the year, but the release of investment expenditure was not sufficiently speedy to offer any noticeable improvement in demand. In line with the experience of the engineering industry as a whole, we had to face severe competition throughout our range of products and services, particularly in respect of shop fabrication work and it was only by following a flexible and innovative policy that we were able to keep our

resources busy and engaged in activity which was productive and profitable.

There is a growing tendency on the part of large project customers to give up the advantages of shop fabrication work to the somewhat deceptive conveniences of site oriented fabrication. We have always encouraged customers, who seek quality work and trouble free service from the industrial pipework they put into service in elaborate and expensive plants, to insist on fabrication of pipework under the controlled and regulated environment of a properly organised workshop, where with the use of a full complement of tailor made plant and equipment, highly skilled man power and close technical supervision better long-term results can be achieved, as compared to fabrication carried out in field workshops put together inevitably at short notice. This is particularly relevant to plant pipework of a critical nature, where even a minor failure in service could lead to losses in production running into millions. The additional cost involved is really insignificant as compared to the long-term gain and it shall continue to be our endeavour to convince our project customers of this.

We have always attached great importance to management-employee relationship and I am happy to be able to

say that the atmosphere in our Works and Offices has continued to be healthy and one of cordiality and mutual respect.

We have started 1977 well, but with the level of lead presently available for shop fabrication we may not be able to run our shops to capacity. However we have a healthy order book for erection and construction which should more than make up for any shortfall from shop fabrication. I, therefore, expect the trend of improvement so positively displayed in the Company's performance during the last three years to continue.

Much of the success in 1976 has resulted from the excellent team work within the Company and the contribution made at all levels of management staff and workers and I am sure that you will wish to join me in thanking them for the loyal, dedicated and energetic manner in which they have performed during the year under the able leadership of our Managing Director, Mr Ashoke Bir.

In conclusion, I have to report with great sorrow the passing away on 23rd December, 1976 of Mr S. W. Kaye who was the main architect of the Company as it is today. Mr Kaye was incharge of the Company from 1936 to 1949 when he returned to the parent company in the U.K., but he remained on the Board until last year and continued to take active interest in the affairs of the Company. Throughout the years his advice and help was invaluable to me.

(N.B.—This does not purport to be the record of the proceedings of the 39th Annual General Meeting held on 9th June, 1977).

Railway budget : 1977-78

INTRODUCING THE railway budget for 1977-78 in the Lok Sabha on June 11, 1977, the minister for Railways, Mr Madhu Dandavate, said that the net surplus of the railways was expected to increase from Rs 26.45 crores, as estimated in the interim budget, to Rs 32.50 crores and that this improvement would be achieved without any increase at all in the railway fares and freight rates. Together with the surplus of the order of Rs 65 crores in 1976-77, the current year's surplus would reduce the indebtedness of the railways to the general revenues by over Rs 37 crores i.e. from Rs 477.18 crores mentioned in the interim budget to about Rs 440 crores.

Platform Tickets

Mr Dandavate also announced that the rate of the platform ticket would be reduced from 50 paise to 30 paise with effect from July 1, 1977. Since the minimum passenger fare is 30 paise only, some people had started buying the minimum journey ticket for gaining entry to the platforms. The reduction in the rate for the platform ticket may have a marginal effect on the revenue from this source but it will certainly do away with the malpractice.

The Railway minister also announced that the additional long distance trains, to be introduced in the coming years, would be all classless Janata trains, and that instructions had been issued for the manu-

facture of a prototype second class coach with more basic amenities so that long distance passengers, particularly in trains with limited stops, did not suffer from lack of these facilities.

Full text of Mr Madhu Dandavate's speech is given below:

After adoption of the interim budget presented on the March 28, 1977, I met representatives of trade unions, industry and passenger associations, and also some eminent economists with a view to understanding their genuine grievances about the working of railways and inviting from them concrete suggestions to improve railways' performance.

After these fruitful discussions, I have been thinking of streamlining the administrative machinery of the railways and of providing better amenities and facilities to the travelling public, particularly the second class passengers.

Employees Reinstated

At the very outset I would like to inform the House that I have fulfilled the time bound assurance given to Parliament in the last session that all the railway employees victimised during the May 1974 strike would be reinstated within six weeks. I am happy to announce that the process of reinstatement, restoring the disturbed seniorities, condoning the break in service and annulling the transfers effected as a measure of punishment during

the strike, has been completed even before the promised time limit of six weeks. As a direct consequence of the better industrial climate in the railways created by these swift steps, and as a result of the spurt in economy, the freight operation of the railways during the weeks which have elapsed since I presented the interim budget, has been even better than what was anticipated at the time of the interim budget. The loading in April alone is about one million tonnes more than what it was in April last year.

Target Raised

Demands for movement of essential commodities continue to be quite heavy. In view of this improved trend, I have raised the interim budget target of 217 million tonnes of originating revenue earning traffic to 220 million tonnes for 1977-78. The goods earnings are accordingly now estimated to be Rs 1382.94 crores as against Rs 1362.76 crores shown in the interim budget. No change is envisaged in the estimate of passenger earnings which are based on six per cent growth over the previous year. The estimated receipts on account of 'other coaching' and 'sundries' also remain marginally unchanged. The gross traffic receipts have accordingly been placed at Rs 2110.24 crores as against Rs 2091.44 crores estimated earlier.

As regards ordinary working expenses, the provision of Rs 1635.75 crores (net) made

in the interim budget for 1977-78 has been increased about Rs 13 crores to provide for additional maintenance and operating expenditure due to the revised traffic target.

Dividend Liability

The increased provision required under working expenses is partly offset by a small reduction of about Rs 24 lakhs in the railways' dividend liability due to downward revision in the annual Plan outlay for 1977-78 consequent on a detailed review conducted. The interim budget was presented to the House. Taking these factors into account, the net surplus of the railways during 1977-78 is now expected to go up by over Rs 6 crores from Rs 26.45 crores to Rs 32.50 crores.

Taking into account the surplus in 1976-77 which will be of the order of Rs 65 crores and the increased surplus expected to be achieved in 1977-78, the railways' indebtedness to the general revenues will go down by Rs 37 crores that is, from Rs 477.18 crores, mentioned in the interim budget, to Rs 440 crores. It is a matter of great satisfaction to me even after providing for liabilities for the existing and additional anticipated traffic the railways are expected to earn a sizable surplus this year of the order of Rs 32.50 crores. I am happy to announce these results will be achieved without any increase in

way fares and freight the year 1977-78

ould like to mention here e rate of the platform as previously raised to se with effect from , 1974. As the minimum er fare is only 30 paise, crease in the rate of n ticket has resulted in nalpractice of some buying the minimum y ticket for gaining entry platforms. I have, there- decided to reduce the m ticket rate from 50 to 30 paise with effect July 1, 1977. This ion will only have a al effect on the revenue the sale of platform which may even slightly as a result of the reduc- as the number of persons asing platform tickets at ed rates is likely to go up. e people can now go to ilway platforms to receive weet ones without much n and with smiles on lips.

Way Plan

a result of a comprehen- review undertaken by my try in consultation with ministry of Finance, the way Plan for the year -78 has been reduced Rs 501 crores to Rs 480 s including Rs 10 crores the Metropolitan Trans- Projects at Bombay, utta, Delhi and Madras. eduction has been made e allocation for new lines. ision for users' amenities een raised from Rs 3.88 s in the interim budget to crores in accordance with e recommendations of the ssive railway convention nittees and the estimates mittee. In addition, provi- of Rs 2.80 crores has retained to enable the

production units of the rail- ways to meet their working capital requirement in respect of export orders.

The role of railway lines as infrastructure in developing the backward areas of the country cannot be over-emphasised. It has been my effort while formulating the final budget to give a fillip to the construction of lines which are already approved and to take up construction of more new lines with the limited resources which are available to us.

New Lines

The construction of 25 railway lines is in hand and three new railway lines, namely, Mirchandhuri to Jayant in Uttar Pradesh which will serve new collieries in Singrauli coalfields, Bhadrachalam to Manguru in Andhra Pradesh which will provide outlet for Singareni coal, and restoration of Pamban-Dhanushkodi, have been included in the budget. Work will be speeded up on the construction of Tirunelveli-Trivandrum-Kanyakumari line in Kerala and Tamil Nadu, Chitauni-Bagaha link which will connect East UP with North Bihar, Jakhapura-Banspani line in Orissa, Nadikude-Bibinagar in Andhra Pradesh, Wani-Chanaka in the Vidarbha region of Maharashtra, Shahdara-Saharanpur in Uttar Pradesh, Howrah-Amta in West Bengal and Hassan-Mangalore line in Karnataka. Surveys for seven more railway lines, namely, from Talcher to Sambalpur and Koraput to Parvatipuram in Orissa, Bikaner to Chhatargarh in Rajasthan, Jammu to Udhampur in Jammu & Kashmir, Ranchi Road to Koderma and Manderhill to Baidyanathdham in Bihar, and

bringing Amravati from Vidarbha region on the main line in Maharashtra, have been included in this year's budget.

I am keen to take up the construction of some more new railway lines. I am exploring all avenues of mobilising more resources for this purpose in consultation with the Planning Commission and the ministry of Finance so that lines which are urgently needed for the development of backward areas of the country, such as the West Coast Konkan railway linking the southern states, Dallirajhara-Jagdalpur line in the Bastar district of Madhya Pradesh, Dharma-nagar-Kumarghat line in Tripura, Ernakulam-Alleppey line in Kerala, Bhavnagar-Tarapore line in Gujarat, Dehri-on-Sone to Banjari line in Bihar, etc, can be taken up early.

Gauge Conversion

Multiplicity of gauges has been causing serious bottlenecks to the movement of traffic and areas served by the metre gauge and narrow gauge lines are at a great disadvantage in the matter of development. The gauge conversion schemes having a total length of 2500 kms are at present in hand. They include conversion schemes like Barabanki-Samastipur in UP and Bihar, Viramgam-Okha in Gujarat, Guntakal-Bangalore in Andhra Pradesh and Karnataka, and Manmad - Parbani -Parli -Vajjnath in the backward Marathwada region of Maharashtra. Every effort will be made to expedite these conversion schemes. Two more schemes, viz, Delhi-Ahmedabad and Varanasi-Bhatni lines have been included in the present budget. Surveys are also proposed to be carried out for three more conversions, viz,

Shahganj to Mau, Sitapur to Burwal and Varanasi to Chupra.

I shall now deal with some of the important matters on which Honourable Members have expressed their concern and to which I have been able to give some thought during the period since the interim budget.

Primary Concern

Naturally, our first concern will be the long suffering sccond class passengers. Action has to be taken to effect improvement in second class travel and to make use of our resources, including modern technology, to reduce overcrowding in trains. Due to constraints at terminals and lack of line capacity on certain saturated trunk routes, there is limited scope now for introduction of additional long distance trains. Therefore, in order to reduce overcrowding in such long distance trains, I am considering the use of double-decker coaches on certain routes where these can be put in operation. If the trials now already in progress with a prototype coach prove satisfactory, we shall introduce double-decker trains on specified routes.

With my irrevocable commitment to the Gandhian and socialist values, whenever the question of priority comes up, in preference to the claims of the affluent classes, the needs and requirements of the poorer masses will always get precedence. With this perspective I have decided that the additional long distance trains to be introduced in the coming years shall all be classless 'Janata' trains. In these Janata trains, as part of passenger amenities, lending libraries having books and magazines

will be provided. Further, I have directed that wherever feasible the load of important trains, which are on electric traction, should be increased from 18 to 20 coaches so that over-crowding can be reduced to that extent.

In order to ensure provision of certain basic amenities to second class passengers, I have issued instructions that a prototype second class coach should be manufactured with more toilets and better water supply facilities than now available, so that long distance passengers, particularly on trains with only a few stops, will not suffer from the lack of these conveniences. After manufacture and satisfactory trial of the prototype coach, action will be taken for its introduction as early as possible. In the meanwhile suitable measures have been initiated to ensure that adequate drinking water supply is available both at stations and on trains, particularly during the current summer rush. I am also considering provision of some type of not very expensive padded cushion beds in the second class sleeper coaches of certain long distance trains, so that common men may travel without having to carry their own beddings.

Passenger Amenities

In order to improve facilities for second class passengers, the Railway Administrations have been instructed to improve the facilities available in the concourses by provision of toilets and benches on a programmed basis. Similar facilities will be provided at all new stations or when an existing station is being remodelled.

To enable passengers to travel in relative comfort, it is first necessary to ensure that

they can buy tickets for reserved accommodation. For this purpose, it shall be my endeavour to root out malpractices, in booking and reservation offices and in the matter of allotment of wagons. I have initiated surprise checks by the Vigilance Department to ensure that there is no collusion between unsocial elements, unauthorised persons and the railway booking staff.

Railway Board

In the debate on the interim budget, I had assured this Honourable House that the long pending question of restructuring the Railway Board would be taken up expeditiously. I have carefully gone into this question and have also studied the reports of various committees that have dealt with the subject in the past. The most important report on the subject has been prepared by the Administrative Reforms Commission, instituted under the Chairmanship of Mr Morarji Desai. This report has dealt with both the functions of the Railway Board, as also the desired organisational structure. As regards functioning of the Railway Board, governed by the Railway Board Act of 1905, the railways function as a departmental undertaking of the government of India, with Railway Board working under the control of the Railway minister.

For an organisation of the size of the Indian Railways, with its wide impact on the public life, the Administrative Reforms Commission has suggested that there should be more delegation of powers to the lower levels and more of policy decision at the Railway minister's level. As regards the structure of the

Railway Board, the Administrative Reforms Commission has made certain valuable recommendations. I am happy to announce that the Administrative Reforms Commission's recommendations that remained shelved for such a long time at the hands of the previous governments have been broadly accepted by us and will be implemented expeditiously. I have also decided to abolish certain superfluous committees which had become unofficial centres of authority and instrument of political patronage.

In order to create better employment opportunities and staff satisfaction due to improved avenues of promotion I have decided that no extension of service will be granted to any railway employee beyond the age of superannuation except in cases where a suitable person is not available. This principle will be observed at all levels right from the Railway Board down to the lowest echelons of the railway staff. I am also reviewing all the cases where extensions have been approved much before the dates of superannuation.

New Legislation

It is the Indian Railways Act that regulates the activities of the various railway administrations as public carriers. The Honourable Members of Parliament have often voiced their opinion that we are even now following the Railway Act of 1890 and that suitable modifications should be made and a fresh draft presented to Parliament keeping in view the changed circumstances in which Indian Railways have to function in free India. I am glad to inform the House that a second draft based on discussions with the Legislative

department of Law minister has already been prepared and this is under discussion with the department of Legal Affairs, ministry of Law. It is expected that I will be able to come forward with the first draft to the House by the end of the financial year.

Settlement of Claims

During my meetings with representatives of trade and industry and also with social workers, there has been criticism about undue delay in disposal of claims cases. I have, therefore, decided that arrangements should be made to streamline and simplify the machinery for dealing with claims so as to achieve qualitative improvement and to ensure that claims are disposed of within a reasonable time, which normally should not exceed six weeks. For this purpose I have decided to have greater delegation of powers for settlement of claims to officers well as to field supervisory staff. The system of settlement of claims by mobile claim offices will also be extended. Information centres are being set up in every claims office where information about claims already preferred can be made available and enquiry about consignments booked or consigned, if they have not been received within a reasonable time, will be dealt with.

In my interim budget speech I had referred to the labour participation in management. At present, a Corporate Enterprise Group has been set up at the central level consisting of three representatives each from the two Railwaymen's Federations, one representative of Railway Officers' Federation and from the official side members and additional members of the Railway Board.

the secretary, Railway to discuss certain ers mainly to evaluate the ioning of the railways o suggest ways and means prove their viability.

s now proposed to set up, e zonal level also, Zonal orate Enterprise Groups sting of three representa- each of the affiliates of wo recognised Railway- Federations, and one sentative each of the te of the Railway Officers' ration. The members on fficial side would consist e general manager and heads of departments. Zonal Corporate Enter- Group will discuss ers involving improvement e working of the railway n and would recommend ppropriate changes for im- g efficiency and viability.

ers' Participation

a further step towards ipation of workers in ay management, it is sed to set up in each r workshop a joint coun- and appropriate number of councils. These Joint shop councils would st of equal number of entatives of workers and dministration, the former nominated by the nised unions.

ere are complaints about n *ad hoc* appointments in Class III and Class IV g the previous three years. ve decided that such oc appointees in Class III l be referred to the Rail- service Commission to be erer along with other ants. As regards *ad hoc* tees in Class IV, they get screened, along with by the usual screening ery of the railways.

aware of the railway-

men's charter of demands. Those who framed this charter had made it explicitly clear that the demands were negotiable. Some of the demands were such that they required an overall policy review and decision by the government as a whole in the context of the available financial resources. Only after such a comprehensive review will I be able to examine the railwaymen's demands in cooperation and consultation with the accredited trade union representatives in railways. I am confident that our just approach towards railwaymen's demands will be matched by their devotion to duty in the wider interest of the nation.

As regards the legitimate demand of the railway employees concerning their victimisation during the emergency, I wish to make a categorical announcement that those rail-

way employees who were either suspended, removed, dismissed or prematurely retired during the emergency, as a sequel to their detention under MISA or DIR or because of their association with organisations, either banned during the emergency, or not favourably disposed towards the then government, will be reinstated.

The actions taken against the employees under Rule 14(2) of the Railway Discipline and Appeal Rules, during emergency, will also be reviewed and wherever it is found that the particular actions were prompted purely by political considerations, those actions will be annulled.

In order to embark on the various developmental and modernisation schemes on the railways, railways have to continue as an economically viable unit and in this regard

we are still a long way to go, in spite of the surplus expected during 1977-78. This can only be achieved gradually by liquidating the debt of about Rs 440 crores, which has become due over the years to the general revenues. Pursuant to the recommendations of the Public Accounts Committee, an expert committee will shortly be appointed to examine comprehensively the railway fares and freight structure.

I am quite confident that I will have the cooperation of all the Honourable Members, the public and the organised labour in the process of making the railways service-oriented and productive. I have to pay a special tribute to the railway staff who have demonstrated their renewed interest in keeping the railway wheels moving fast, so as to serve the public to the best of their ability.

Railway Budget at a Glance

(Rs crores)

	Actuals 1975-76	Budget estimate 1976-77	Revised estimate 1976-77	Budget estimate 1977-78 (as presented in March)	Budget estimate 1977-78 (as presented in June)
Gross traffic receipts	1767.01	1955.82	1987.55	2091.44	2110.24
Ordinary revenue working expenses (net), i.e. after taking credit for recoveries	1470.17	1551.42	1548.23	1635.76	1648.74
Appropriation to depreciation reserve fund from revenue	115.00	135.00	135.00	140.00	140.00
Appropriation to pension fund	24.50	30.00	35.00	40.00	40.00
Net miscellaneous expenditure (including cost of works charged to revenue)	20.31	22.82	22.35	23.67	23.68
Total	1629.98	1739.24	1740.58	1839.43	1852.42
Net railway revenue	137.03	216.58	246.97	252.01	257.82
Dividend to general revenues	198.14	207.60	211.30	225.56	225.32
Net surplus (+) short-fall (—)	—61.11	+8.98	+35.67	+26.45	+32.50
Operating Ratio	91.1%	87.7%	86.4%	86.8%	86.6%

Revenue Receipts and Expenditure of Indian Government Railways-1977-78

(In thousands of rupees)

	As presented in March, 77	As now proposed		As presented in March, 77	As now proposed
Capital-at-Charge	4921,57,92	4900,57,92	Miscellaneous Transactions		
Traffic Earnings			(a) Receipts		
(a) Coaching			(i) Other Receipts from Subsidised Companies	8,82	8,82
(i) Passengers			(ii) Other Miscellaneous Receipts	25,52	25,52
Upper	57,62,54	57,62,54	(iii) Receipts from Surcharge on Passengers	9,22,84	9,22,84
Lower	549,37,46	549,37,46	Total—Receipts	9,57,18	9,57,18
Total Passenger	607,00,00	607,00,00			
(ii) Other Coaching	92,31,00	91,31,00	(b) Expenditure		
(b) Goods	1362,76,00	1382,93,72	(i) Land	—	—
(c) Sundry Other Earnings	54,37,00	53,99,00	(ii) Subsidy	25,12	25,12
Total	2116,44,00	2135,23,72	(iii) Surveys	83,07	79,52
Suspense	—25,00,00	—25,00,00	(iv) Other Miscellaneous Expenditure	13,72,67	13,76,21
*Gross Traffic Receipts	2091,44,00	2110,23,72	(v) Open Line Works-Revenue	9,00,00	9,00,00
Working Expenses			(vi) Appropriation to Pension Fund	65,00	65,00
Ordinary Working Expenses			(vii) Appropriation to Accident Compensation, Safety and Passenger Amenities Fund	9,22,84	9,22,84
(i) Administration	157,85,80	158,15,80	Total—Expenditure	33,68,70	33,68,70
(ii) Repairs and Maintenance	635,38,14	638,50,14	Net Miscellaneous Receipts	—24,11,52	—24,11,52
(iii) Operating Staff	327,74,47	329,37,47	Net Revenue	252,00,84	257,82,02
(iv) Operation (Fuel)	313,62,35	320,05,89	Payments to General Revenues		
(v) Operation other than Staff and Fuel	92,41,32	93,91,32	(i) Dividend to General Revenues	—	—
(vi) Miscellaneous Expenses	57,17,38	57,17,38	(ii) Payments in Lieu of Passenger Fare Tax	225,55,65	225,32,34
(vii) Staff Welfare	56,88,56	56,88,56	(iii) Contribution to Railway Safety Works Fund	—	—
Total	1641,08,02	1654,06,56	Surplus (+) or Shortfall (—) for the Year	+26,45,19	+32,49,68
Suspense	—5,32,56	—5,32,56	Operating Ratio**	86.8%	86.6%
Total-Ordinary Working Expenses	1635,75,46	1648,74,00	Ratio of Net Revenue to Capital-at-Charge	5.1%	5.3%
Appropriation to Depreciation Reserve Fund	140,00,00	140,00,00			
Appropriation to Pension Fund	39,35,00	39,35,00			
Payment to Worked Lines					
(a) Net Earnings	19,39	19,39			
(b) Rebate	1,79	1,79			
Total Working Expenses	1815,31,64	1828,30,18			
Net Traffic Receipts	276,12,36	28,193,54			

*Includes Receipts of Worked Lines.

**Ratio of Total Working Expenses to Gross Traffic Receipts

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Production

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THE FIRST impulse of any normal person towards a new-comer attempting a hard job is to be charitable. *Eastern Economist*, in its issue of the same date as budget day, took a kindly view on some of the major budget features or decisions. As a hedge against the future, however, it framed its opening sentence in a deliberately ambiguous manner: "This is a janata budget although the janata may not readily see this". The wisdom of this provision for second thoughts impresses me as I now set out to examine in detail and in freedom from the excitement of the budget day, the character, contours and contents of the first budget of the first non-Congress government at the centre.

It is easy to raise expectations among the public, but it is difficult to fulfil them. This is a harsh reality of political life and it has been established and re-established by the repeated experience of political parties and governments through the years. Nevertheless, talking big is almost an instinct with all potential entrants into public life and it is nourished generously at the breasts of their foster-mother, politics. When the Janata party went to the Lok Sabha poll in March, it had an unbeatable card in its hand, viz, the excesses of the emergency. It did not then realise this fully, of course. It therefore sought to get hold of more aces than it needed. In particular, it set out to make the economic passages of its election manifesto spell out an instant new Jerusalem in India's far from green and pleasant land. The emergency regime of Mrs Indira Gandhi's Congress party had been boasting that it had temporarily taken away from the people the political rights and civic liberties which the bulk of them did not care for greatly only in order that it could most effectively look after their real interest which was bread. The Janata front, consequently, had its *reposte* ready made. It could say and did say that it would give the janata both their liberty back and bread baked more generously than the Congress party had been able to do whether during the emergency or in the years that had gone before. Patrick Henry, famous in the American War of Independence, had declaimed "Give me liberty or give me death!" The patriot, in his passion, often allows himself as much licence with rhetoric as the poet in his imagination. The Janata leaders, however, had rightly resolved that the people deserved a less tragic option. Therefore they told the people that, if the latter voted right, not only would liberty be restored, but also large loaves of bread provided, with everybody having jobs sooner rather than later and destitution disappearing in ten years.

As politics go, there was nothing particularly dishonest in all this. The Janata party came into being after the nation had been put through the wringer of gross political opportunism by Mrs Gandhi and her party and it was but natural that idealism should have a strong appeal for those who were trying to work out a political conscience for the Janata party. However, once the responsibility of government had descended on the Janata leaders, in an unexpected heavy downpour from the heavens on high, they should have allowed their minds and bodies to cool down a little. Instead, almost all the new central ministers and the other big men in the party continued to carry on as if the election fever was still on. It was true, in a sense, that electioneering had in fact not yet ended. The strategists of the party were already busy planning for the take-over of the assemblies and governments in all those states where the Congress party had been signally routed at the Lok Sabha poll. With the dissolution of those assemblies and governments and the scheduling of elections in those

states for the middle of June, Janata oratory did not abate in the weeks following the assumption of office by that party at the centre. On the contrary, because the electorate in state elections might be presumed to be more directly interested in "sugar and spice, and all that is nice"—as the nursery rhyme goes—the Janata propagandists were exploiting for all it was worth every demagogic plank on the party platform.

This perhaps was natural, given the compulsions of party politics and the Janata party's basically genuine desire to improve the lot of the men and women of this land as much as possible as rapidly as it could be done. Trouble arises, however when the leaders of the party, especially those who are responsible for the making of government policies, or the running of the administration, start swallowing any large part of their party's propaganda. Strangely enough, even the Finance minister, with all his years of experience behind him, has apparently not been able to control this unseasonable appetite when he made his speech presenting the interim budget on March 28.

On that occasion, Mr H.M. Patel sounded a note of confidence, the assertiveness of which seems, in retrospect, to have been unduly strident.

Unduly Strident

With a regal gesture, he set aside the entire budget documents, including the demands for grants that were prepared on the basis of directions given by the previous government, as having no relevance to "our philosophy, policies and programmes". He said that there was no time since the Janata party assumed office to remake policies or recast estimates and went on to inform parliament that "it is our firm resolve to review the fifth Plan and to revise the budget estimates so that they reflect our thinking and priorities". He also undertook to complete "these exercises in time for the regular budget which would be presented in May 1977". As it worked out, thanks to the preoccupations of the political parties with the state elections, Mr Patel in fact got some three weeks more than he had bargained for, since the regular budget was presented only on June

17. Even so, how far has the Finance minister been successful in his declared purpose of presenting a regular budget more in the image of the Janata party?

The pattern of public expenditure and receipts projected by the new government for the financial year 1977-78 seems to suggest that Mr Patel did not make as much headway as he thought he could. One explanation could be that Mr Patel's previous but much dated experience of the functioning of government had not been

Bureaucratic Delays

of much help to him in anticipating the slow movements of files and even the slower movement of minds in the ministries. This is not to say that he has had no work done for him in the time between the interim budget and the regular budget, but it would be fair to argue that Mr Patel should not have forgotten so soon that the bosses of the bureaucracy cannot be expected to be as sensitive to normal government directions as they were last year to orders from extra-constitutional centres of power. In any case it may perhaps be charitable to assume that it was the proverbial inertia or negativism of the bureaucracy in the state of functioning normal to it that had come in the way of the Finance minister getting the government to complete its home work in time for a proper, regular budget. Charitable, that is, for the minister or his colleagues although not for their officials. But are we under an obligation to be invariably charitable to the ministers even of a new government? In all fairness, then, other possible explanations for Mr Patel's failure to project a more adequate Janata image through the regular budget ought to be considered.

The most valid of these, probably, is that, if the Finance minister had not been able to incorporate a sufficient number of major policy decisions, whether on the macro-economic dimensions of the budget or its micro-economic details, it may simply be because the political machinery which must provide the drive to economic policy-making by the Janata government is still to be properly pieced together and installed in its place. Until then there is bound to be only blundering movement

towards those goals of the party which be sensible in themselves and on which Janata as a whole as well as the third part of it is generally agreed. It is significant that, in the wake of the presentation of the budget, questions were raised within the Janata party itself about much "Janata" there is in the budget. Some of the answers, predictably, were frivolous, but there were also some which were reasonably serious. The latter category belongs surely to a suggestion I would hazard here. There is a lot of the Janata party in this budget, but the Janata could care for, thanks to the internal contradictions at the leadership level regarding new directions for the economy. In this sense, this is a "Janata" budget, reflecting as much as the party leaders have been able to agree on as what they have agreed not to agree on for the time being.

This is clear from the change from a ringing of self-confidence in the Finance minister's speech on the interim budget to the whisper of self-consciousness in his speech presenting the regular budget.

Self-conscious Whisper

March 28, Mr Patel's speech sounded pretty confident, but that he would be able to produce a regular budget which would owe much less to the directions given by the previous government for the preparation of the interim budget and the demands for grants than to the new directions he would be giving on behalf of the present government. This expectation has turned out to be highly exaggerated. Mr. Patel has been hard put to it to explain what, if any, major modifications in kind he has been able to effect. He has taken credit for cuts in the estimates of non-Plan expenditure. The "economy exercises" are going on; meanwhile, he has been able to incorporate into the budget documents changes reflecting a reduction of about Rs 130 crores from the estimates in the interim budget. He has mentioned specifically a cut of Rs 56 crores made in provision for Defence expenditure as proposed in the interim budget. He has promised that, although the provision for food subsidy and carrying costs of buffer stock is being retained at Rs 460 crores for the present, it will be reviewed on

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basis of emerging trends during the course of the year.

While expressing our appreciation of his attempts to reduce the cost of government, we may still ask whether they are not in the nature of an anti-climax to the heroic resolutions of austerity to which the Finance minister had given expression in March. Considered in the context of the aggregate government disbursements on revenue account of Rs 9,487 crores and on capital account of Rs 6,081 crores, making a grand total of Rs 15,568 crores, the spending cuts for which Mr Patel has now taken credit do not at all seem impressive even as an instalment. Moreover, although he himself has said that the economy exercises are continuing and some more decisions are likely to be taken in the course of the current financial year, he has hesitated to take some credit on this account provisionally. If the present government's assertion that the previous government had been prodigal, especially during the period of the emergency, when it was a law unto itself is true—and I believe it is—the right course for the Finance

minister surely was to have imposed an *a priori*, across-the-board cut in government spending and outlays and then demand the various ministries, departments and public sector undertakings to restructure their demands for grants or expenditure estimates so that the lower ceilings on expenditure become effective. It is only through some such approach that control can be recaptured over run-away spending by the government and since this has not been done in the regular budget, it is fair to say that the government will have to exert itself more to secure credibility to its commitment to the rationalisation of and austerity in public spending.

The Finance minister has made some claims for major initiatives. He has said that the development plans had hitherto deliberately laid emphasis on industrialisation. Now primacy is being given to agriculture and rural industries without the neglect of modern industries. More specifically, he has mentioned that the total Plan outlay on agriculture and allied services, major, medium and minor irrigation projects and fertilizers, together

with provisions for cooperative power sectors attributable to rural works out to Rs 3,024 crores. This has been emphasised, constitutes 30 per cent of the aggregate outlay of the state and union territories' plans. The implication is that more resources are being provided for agriculture and development than the previous government had done during the last financial year or might have done during the current financial year had it continued in office and that the Janata owes this Plan strategy having been reapprehended by the Janata government. This has given rise to a controversy which, at the time of writing has not reached a very positive stage if only because much of the debate has been a kind of talk in the air.

Mr C. Subramaniam, admirably deterred by the unusual circumstance of having to speak from the opposite benches, has hit hard at the claim of the Finance minister to have done great things for agriculture. He has contended that far from releasing a higher proportion of resources to agriculture, the Janata b

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allotted to the annual Plan in this only a little more than 30 per cent of the total outlay as compared with over 50 per cent provided by the previous government in 1976-77. It is possible that neither Mr Patel nor Mr Subramaniam is comparing like with like and, while this controversy is pursued for what it is worth, it may be pointed out that what happened probably is that, as between the interim budget estimates and the regular budget estimates, in the case of the annual plan, some funds have been shifted to a few projects in the industrial sector and a few programmes in the agriculture and rural development sectors.

For instance, allocations for machinery and engineering industries, petroleum, coal and lignite, iron and steel, drugs and pharmaceuticals and consumer industries have been lowered to some extent and the total outlay on industries and minerals brought down from Rs 2412.95 crores in the interim budget estimates to Rs 2296.29 crores in the regular budget estimates, though provision for village and small industries, included in the aggregate, has simultaneously been raised from Rs 72.50

Increased Outlay for Farming in the aggregate, has simultaneously been raised from Rs 72.50 crores to Rs 83.20 crores. As against this, agriculture claims Rs 204.09 crores in the regular budget estimates compared with Rs 194.84 crores in the interim estimates. Increases have been effected in the provisions for minor irrigation, soil and water conservation, area development and also dairy development and rural development, in the two cases where there are sharp increases in allocation of funds from Rs 11.64 crores to Rs 32.55 crores and from Rs 5.04 crores to Rs 25.69 crores respectively. It has been estimated, however, that the total resources transferred between the two sectors as a result of the primacy which the Finance minister claims to have given to agriculture and rural development may not involve an amount much more than Rs 230 crores.

That some of these new thoughts on the modification of resources allocation are quite desirable need not be denied. In particular, the public should welcome the almost missionary zeal with which the Janata government desires to pursue, the programme for expanding drinking water

facilities to villages lacking in the supply of palatable water. At the same time, there is no reason to believe that, had even the previous government continued in office and been in a position to author a regular budget, it might not have made some of the changes in the estimates incorporated in the interim budget.

We should realise that, strictly speaking, it is not fair to compare the regular budget of the Janata government with the interim budget, estimates prepared obviously on a provisional basis by the previous government. The point I am trying to make is that any claim which the present Finance minister may be disposed to make to great excellence on behalf of the regular budget cannot be sustained simply on the basis of some qualitative changes or improvements here or there in comparison with the interim budget estimates prepared on the directions of the previous government.

Unfair Comparison

In any event Mr Subramaniam's contention that he had after all projected through his budget for the last financial year certain Plan outlays in terms of a specific programme for integrated rural development cannot be lightly dismissed. This is not to say that the Janata government cannot and will not, in its own good time, come forward with a better plan-frame for this purpose. However, as of now, there is little to sustain the claim that a second green revolution has been got going by this first central budget of the new government.

In part A of his budget speech the Finance minister, giving details of the resources which are being earmarked in the annual Plan for the year 1977-78, has brought out what he evidently regards as a major achievement, viz., an increase of 27 per cent in the total outlay of the central, states and union territories for 1977-78, which will be Rs 9,960 crores as against Rs 7,852 crores in 1976-77. A provision of Rs 3,978 crores has been made in the budget towards the centre's plan, inclusive of the internal and other resources of public undertakings and this plan will be of the order of Rs 4,939 crores in 1977-78 as against Rs 4,090 crores in 1976-77.

Here I am reminded of the speech which

Mr Subramaniam had made while introducing the budget for 1976-77. Within the first few sentences of that speech, he laid stress on the fact that he was providing a Plan outlay of Rs 7,852 crores, an increase of 31.6 per cent over the allocation for the year 1975-76. Taking no chances and making sure that this point was driven home, he explained that this marked the highest increase in development outlays in any one year since the beginning of the era of planning in our country. The then Finance minister explained that he was able to contemplate this higher level of development spending because the nation's agricultural base was getting stronger as reflected in an increase in foodgrain production, industrial output was rising relatively faster due to improvement in power supply and the prevalence of industrial peace, exports were expanding and the external resources of the country were being augmented. The government's anti-inflation programmes, he pointed out, had succeeded in restraining the inflationary trend in the economy and contained

Congress Claim

the rise in prices in the preceding twelve months. He argued that in those circumstances it was not only desirable but necessary that the pace of development should be accelerated through larger resources being ploughed into Plan programmes. Referring to areas of demand recession in the economy, which was coming in the way of the full utilization of installed capacity in many industries, he said that the best way of coping with this situation was to provide for higher investment levels in key sectors so that more purchasing power would be released simultaneously with the creation of basic productive assets.

The interim budget estimates for the current financial year, prepared on the basis of the directions given by the previous government and presented to parliament in March by the present Finance minister, proposed an outlay of Rs 5,053 crores for the central sector of the Plan, making a draft on the central budget of Rs 4,096 crores. This is to be compared with the preceding year's outlay of Rs 4,090 crores on a budgetary support of Rs 3,347 crores. Taking the centre, states

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union territories together, the interim
 yet envisaged a total Plan outlay for
 -78 of Rs 9,953 crores as compared
 Rs 7,852 crores in the budget esti-
 es for 1976-77. Here again the previous
 rnement was proceeding on the assump-
 that the economy had been going
 n strength to strength.

ut, this is not an assumption which
 er the leaders of the Janata govern-
 ment or its other
 spokesmen share. On
 the contrary there
 have been complaints

puted
 im
 along the line that they had inherited a
 cy not only of political ruins but also
 economic debris. In fact the present
 ance minister himself clashed with the
 vious one over this issue in the very
 t week of the formation of the new
 vernment. When Mr C. Subramaniam
 erted that the Janata government was
 eriting an economy in good shape and
 ised for a breakthrough on the agricul-
 ral and industrial fronts, thanks to large
 ain reserves, better utilization of capa-
 y in industry and accumulation of ex-
 nal reserves, Mr Patel promptly joined
 ue with him and drew his and the pub-
 s attention to the revival of inflation-
 y pressures, the rapid growth of money
 pply, rise in the price level marked by
 ortages of some essential commodities,
 e phenomena of too many sick indus-
 ies and the emergence of many ailing
 anufacturing units and the steady dete-
 oration in employment opportunities.
 ore vociferous members of the Janata
 arty such as Mr Subramaniam Swamy,
 ave even spoken of a "shattered"
 onomy.

The Economic Survey, 1976-77, prepar-
 d under the direction of the present
 overnment, reports in more moderate
 fficial language, that the performance of
 e economy was uneven during that year.
 states that the hope that the economy
 ad got out of the stagnation of the first
 our years of this decade and resumed
 s growth had not materialised, although
 ndustrial production had strikingly im-
 roved and the performance of balance
 f payments was highly encouraging.
 gain, although the higher buffer stock
 nd the large foreign exchange reserves
 nabled the government to undertake

better short-term supply management,
 the behaviour of prices was a matter of
 concern, while the increase in money
 supply was uncomfortably large. Mr
 Patel, himself, even while claiming in his
 speech presenting the regular budget that
 the primacy of agriculture was the core
 and substance of the annual Plan as adop-
 ted by him, admitted that the provision of
 more resources, though vital, could not
 achieve the objective since the entire
 apparatus for utilizing these resources
 would have to be completely revamped
 in order to improve its effectiveness. Ex-
 plaining that this would require changes
 in the organization of both planning and
 implementation, the Finance minister
 categorically stated that the effort needed
 would call for a total transformation of
 the agencies connected with agricultural
 development. All this boils down to the fact
 that the present government does not

Total Transformation

accept the thesis of
 Mr C. Subramaniam
 that the current con-
 dition of the eco-
 nomy is buoyant and resilient or that it is
 in a position immediately to incur usefully
 larger expenditure on development since
 its capacity to mobilise resources on the
 one hand and organize profitable invest-
 ment on the other is limited by the poli-
 cies and actions of the previous govern-
 ment, especially during the emergency. If
 this is his case, how is it logical or reason-
 able for the Finance minister to hug to
 his bosom the annual Plan of the pre-
 vious government which he had only
 three months ago spurned as a bastard
 child?

Mr Patel, in fact, even proposes to spoil
 this brat by over-feeding it on fatty
 foods. While the total disbursements of
 the central government have been raised
 from Rs 15,542 crores in the interim
 budget estimates to Rs 15,568 crores in
 the regular budget estimates, the annual
 Plan, which Mr Patel had earlier consider-
 ed to be expendable in many of its parts,
 has still managed to secure a total provi-
 sion of Rs 3,978 crores or only about
 Rs 118 crores less than what Mr Subra-
 maniam, professing to be confident of an
 economic base growing stronger and
 broader, had aimed to provide. The con-
 clusion irresistably is that either the pre-
 sent government does not really believe

what it says when it complains that it
 has been left with an enfeebled economy
 on its hands or it is prepared to take the
 same risk with economic stability that the
 previous government was prepared to
 take, in the hope that it will be able to
 put matters right at some unspecified later
 date.

In their memorandum on "Inflation
 Reversal and Guaranteed Price Stability",

Prof C.N. Vakil and

Dr P. R. Brahma-

nanda have this to say

on the laxity in the

Experts' Analysis

management of the economy by the pre-
 vious government during 1976-77, after
 giving an account of the process by which
 control over inflation had been obtained
 by the same government during the two
 preceding years.

"The authorities did not realize that
 such control had to be obtained conti-
 nuously. They became either complacent
 or did not comprehend exactly the per-
 ennial nature of the task of achieving
 price stability. There was a number of
 interests which pressed for a renewal of the
 rising tempo of public expenditures, in
 particular of Plan expenditures. The
 bumper harvest gave an opportunity for
 the Food Corporation to augment its
 stocks and naturally credit for this pur-
 pose started expanding. The private cor-
 porate sector as well as the business com-
 munity in general started demanding
 relaxation of credit curbs. The very con-
 trol of inflation which helped to streng-
 then the value of the rupee and the action
 against smugglers led to the inflow of
 exchange remittances along authorised
 financial channels. The stringent action
 against black incomes and the fear of
 raids also helped to channelise liquid
 resources through banks and company
 deposits. Cumulatively these factors
 helped to strengthen the expansionary
 forces in the monetary and fiscal spheres.
 Inflation inevitably staged a come back".

It cannot be argued of course that the
 building of a buffer stock of food-
 grains, or taking action against smugglers
 or 'black' incomes or wealth, or even the
 relaxation of curbs on bank credit, when
 such relaxations were indicated by the real
 difficulties experienced by industry or
 trade, was therefore wrong and this is of

course not the meaning of the above passage. But once it was realised that the liquidity of the economy was increasing at an inflationary pace, much more control ought to have been asserted over the inflationary potential in many areas of the economy. Since this was not done, the annual rate of money supply has been rising and is currently of the order of about 19 per cent.

According to Prof Vakil and Dr Brahmananda, the major factors responsible for monetary expansion during the period beginning with the end of March 1976, are, expansion in net bank credit to the government sector, expansion in net bank credit to the commercial sector, and the increase in the foreign exchange resources of the banking system. The first two factors clearly are related to the sharp step-up by about 31 per cent in the outlay on the annual Plan in the budget of 1976-77. Even if this large Plan expenditure, which itself was a part of a larger total of public expenditure, might have received justifiable encouragement from the state of the

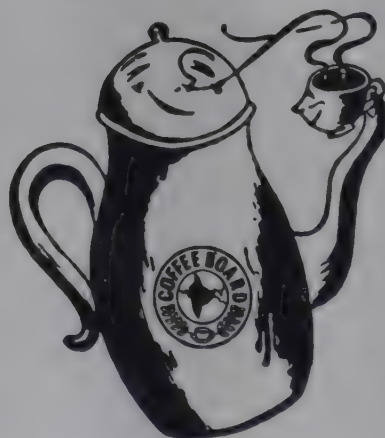
economic outlook in the first quarter of 1976, it cannot be doubted that the actual impact of this magnitude of public expenditure in the course of the following 12 months was considerably responsible for the loss of relative price stability and the reemergence of inflation by contributing to the expansion of net bank credit to the government and commercial sectors. It may be mentioned here that the budget estimates for 1976-77 had contemplated an overall deficit of Rs 328 crores which had risen to Rs 425 crores in 1976-77. But this deficit or the increase in the deficit, by itself, had no great significance to the reemergence of inflationary pressures. Even if there had been no deficit in the narrow accounts of budget itself, the total transactions of the government, centring in a near-explosion of public expenditure, including Plan expenditure, would have had a deleterious effect on the equation between money supply and goods and services.

Against this background, it must be a matter of concern both to the government

and the public that the Finance Minister has chosen to be bound by the previous government's intention to accelerate further the rate of Plan expenditure, especially when he has neither been able to effect as of now sufficiently large economies in the total expenditure of the government or to recast to the reasonable satisfaction of his own government the pattern of allocations in the annual Plan. In particular, is there logic or reason for raising central assistance to state plans which was of the order of Rs 1,294 crores in the revised estimates of 1976-77, Rs 1,645 crores in the regular budget estimates? The previous government presumably hoped to continue in office and could therefore have advanced in support of this increase the argument that political continuity could be assumed. However, the results of the general election in Lok Sabha happily frustrated that hope and shattered the kind of political continuity on which the previous government was banking.

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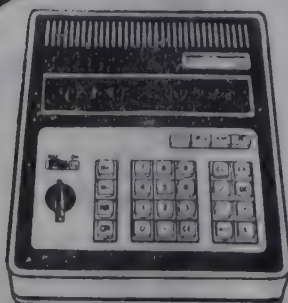


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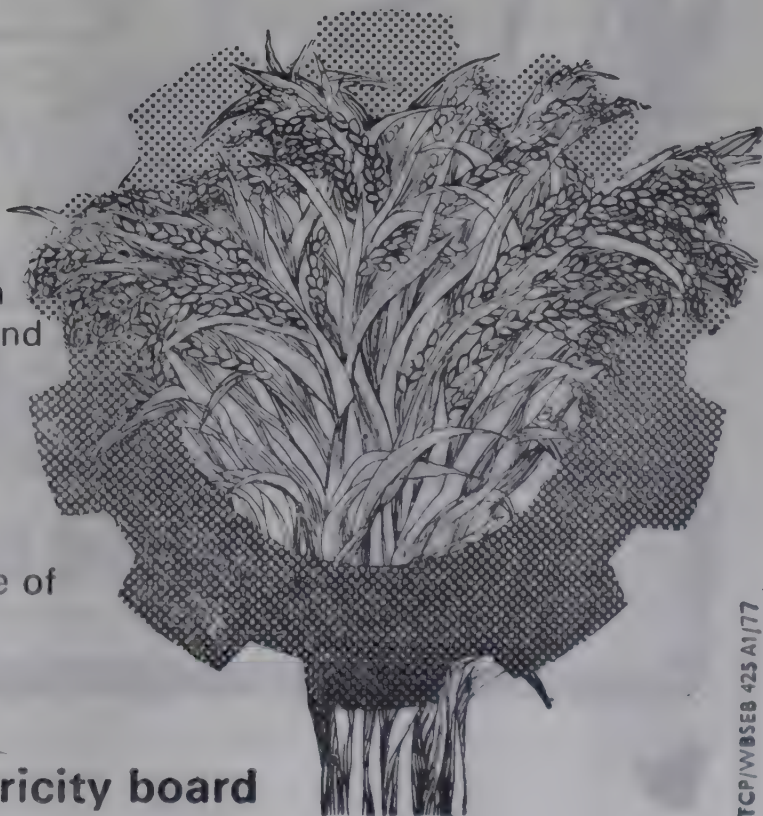
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Assemblies in ten states this month has been an additional factor calling for time to settle down to a new working order. Already three months of the current financial year have passed and at least a month more may pass before the central government, the Council of Ministers of which is yet to be completed and governments in the newly elected assemblies are fully in position for the administration. Meanwhile in the states where the Congress party holds power, there is much political fluidity or even uncertainty. On the whole only a part of this financial year may really be available to the governments at the centre and in the states for the task of normal administration, not distracted unduly by political alarms and excursions. When this is allowed for, it argues an incredible faith, amounting to almost blind faith, on the part of the present government in the effectiveness and resilience of the old organisation bequeathed to it by the previous government. This means that not even Mr Subramaniam Swamy or Mr Biju Patnaik can fault the emergency regime of Mrs Indira Gandhi at least on this score.

The increase in the prices of some of the essential commodities were highlighted by the Janata party in its election campaign against the Congress party in the Lok Sabha poll. From the day he became prime minister, Mr Morarji Desai, to the great reassurance of the people, has been expressing his resolve to curb deficit spending. Nevertheless it is significant that neither he nor the Finance minister has specifically spoken of the imperative of restricting the growth in money supply. Strict monetarists such as Dr Brahmananda had been pleading for a ceiling of five per cent on the annual rate of increase in money supply. They have recently renewed their urge as in the memorandum we had mentioned earlier. Whether one accepts in advance such dogmatic restrictions on the quantum of growth of money supply or not, it is desirable that some planned thought should be given to the regulation of monetary expansion if growth with stability is to become the rule for any given period of years.

Restraining Money Supply

This is all the more important since the present government has taken certain steps towards the liberalization of credit, such as the selective relaxation of curbs on bank lending and the lowering of the ceiling on the rate of interest on term loans of not less than three years from the 14-15 per cent to 12.5 per cent. Mr Patel however has not made even a single reference in his speech on the regular budget to this grave issue of rapid monetary expansion. This omission is not easy to understand except on the assumption that he is disposed to claim that the fiscal policy that he has adopted in this budget should set the people's mind at rest regarding further inflationary expansion of money supply. Let me now examine whether such a claim can be properly made.

In the last few days we have been hearing a lot about the heroic efforts made by the present Finance minister to restore equilibrium between government receipts and disbursements. It is true that the interim budget estimates disclosed an overall deficit of Rs 1,432 crores whereas Mr Patel, as a result of the proposals he has made in the regular budget, hopefully expects to close the current financial year with an overall deficit of only Rs 72 crores. But surely the major part of the credit for this narrowing of a yawning budgetary gap should go to the previous government since, it was in the interim budget prepared on its directions, that a provision was made "for special borrowings of the order of Rs 800 crores against drawal of foreign exchange reserves."

This device has been faithfully adopted by Mr Patel. What this proposal means has to be scrutinised in some detail but, before this is done, it may be pointed out that this credit for special borrowing, for what it is worth, had formally brought down the overall deficit to Rs 630 crores by the time Mr Patel had to do his exercises for the regular budget. Proceeding to reduce the overall deficit further, he has decreased the revenue disbursements on the general services from Rs 5,120 crores to Rs 5,085 crores. This includes a net reduction in revenue disbursements on Defence services from Rs 2,520 crores

to Rs 2,476 crores. The reduction in the economic services is from Rs 1,805 crores to Rs 1,776 crores. This also includes a cut of Rs 8 crores in social and community services which now claims Rs 713 crores. This reduction amounts to a saving on revenue account of Rs 73 crores.

In the case of capital disbursements, the provision for Defence services is brought down from Rs 316 crores in the interim budget estimates to Rs 275 crores. The provision for general services as a whole, including Defence, on capital account, stands reduced to Rs 509 crores as against Rs 568 crores. There is a cut of nearly Rs 5 crores in social and community services to Rs 118 crores. The provision for economic services is brought down from Rs 1,709 crores to Rs 1,644 crores. All this gives a saving of Rs 119 crores on capital disbursements.

The savings so far detailed on both revenue and capital disbursements thus amount to Rs 172 crores, which includes a reduction in aggregate Defence expenditure of Rs 58 crores. However, it must be pointed out that, when compared with the revised estimates for 1976-77, the regular budget estimates still show a substantial increase. In the case of revenue disbursements, the expenditure on general services has increased from Rs 4,698 crores to Rs 5,085 crores. This includes an increase on Defence account from Rs 2,374 crores to Rs 2,476 crores. In the case of social and community services the step-up is from Rs 622 crores to Rs 713 crores. In the case of economic services the increase is from Rs 1,525 crores to Rs 1,776 crores.

These figures are mentioned here only to show that the estimates in the regular budget should be seen not only against the background of the interim budget estimates, but also against the revised estimates for 1976-77 for a correct idea of the extent to which control is now being exerted or not exerted on the magnitude of government expenditure. In any case, while the advocates of a high level of Defence expenditure may be reassured that the Defence expenditure now being budgeted for is still higher than

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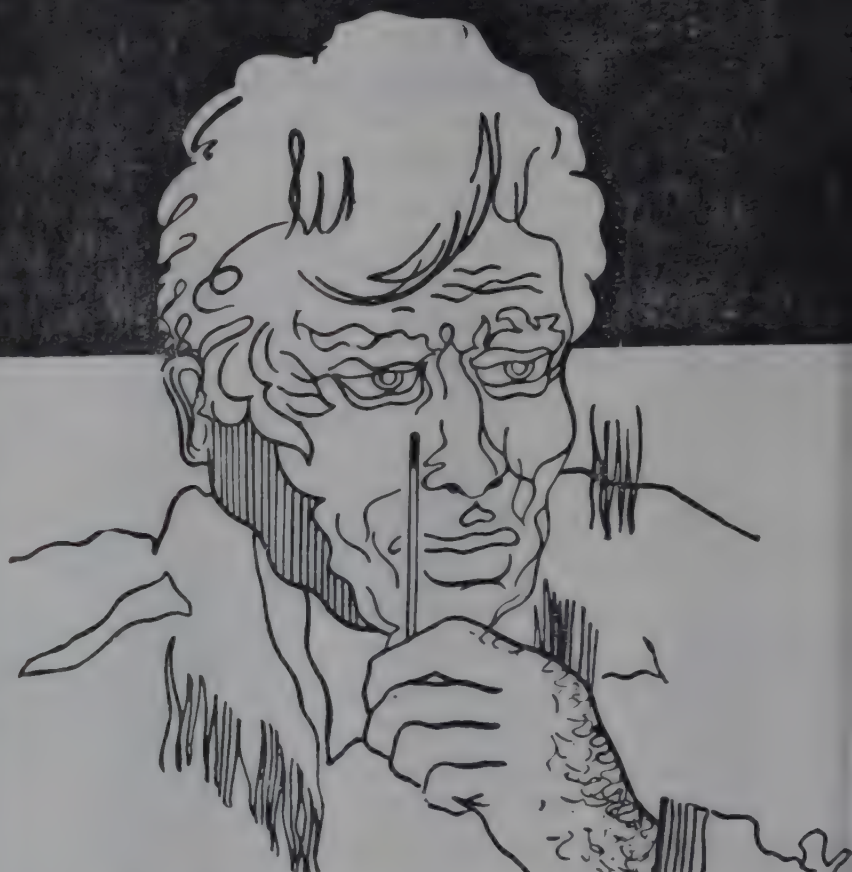
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revised estimates for 1976-77, the finance minister's interim economic exercise has yielded only a saving of Rs 72.26 crores over the areas of revenue and capital disbursements, to which he has to have applied the austerity axe and this too only in relation to the interim budget estimates which of course are much higher than the revised estimates for 1976-77. It is not unfair to say that, after raising visions of a whole new range of economies while making the interim budget speech, Mr Patel has only pulled a mere mouse out of his hat.

Thus only a very limited contribution has been made to the pruning of the budget deficit by the reduction in expenditure. We may now look at what has been done on the receipts side apart from the special borrowing of Rs 800 crores against which the credit, if any, must belong to the previous government. Market loans are expected to yield Rs 1,000 crores as against Rs 849 crores in the revised estimates for 1976-77. The credit now being asked for market loans is also higher than that in the interim budget which anticipated a net yield of Rs 890 crores. Mr Patel, in other words, has stepped up the special borrowings from the open market by Rs 110 crores more than what was proposed in the interim budget. While this projected additional effort should not be dismissed lightly, it is possible to argue that the mobilisation of resources through open market loans could have been on a more ambitious scale.

In fact, the view is being expressed that the government could have safely projected a net borrowing through open market loans of the order of Rs 1,200 crores, having regard to the extent of unsatisfied demand for government securities and bonds. The present government had effected two reissues of earlier issues for Rs 100 crores last month. The offer for three new loans—6.5 per cent 1994, six per cent 1994 and 5.5 per cent 1995—opened for subscription on June 15 and the response was overwhelming, resulting in the mobilization of Rs 440 crores against the notified amount of Rs 400 crores. These two phases of borrowings have already netted Rs 540

crores in the first quarter of the current financial year. The proposed borrowing of the government for the year leaves only Rs 589 crores to be raised in the nine months still available. Unless Mr Patel chooses to take a conservative view of the growth of deposits of the commercial banking system in the current financial year, he could raise his sights where open market loans are concerned.

This point is worth emphasising also because the improvement envisaged in respect of small savings is not much and Mr Patel has decided to leave the estimate at Rs 425 crores, the same as in the interim budget, or only Rs 15 crores more than the revised estimate for 1976-77. He has, however, been able to contemplate substantial increase in capital receipts from special deposits of non-government

Compulsory Deposit Scheme provident funds thanks to policy decisions taken by the present government regarding the diversion into the provident fund accounts of the second instalment of repayment of compulsory deposits of additional dearness allowance and the continuation of the compulsory deposit scheme for income-tax assesseees. An interesting side-light on the budget estimate is that, whereas in the case of the interim budget, market loans, small savings and provident funds were together expected to contribute eleven paise to the budget rupee, in the regular budget estimates, the corresponding figure is ten paise.

Mr Patel was faced with a residual deficit of Rs 202 crores at the stage of his having to decide whether he should go in for additional taxation. He has chosen to do so to the extent of Rs 142 crores of net tax revenue, of which the share of the centre would be Rs 130 crores. The final overall deficit in the budget estimates for 1977-78 thus stands reduced to Rs 72 crores. This admittedly small deficit is publicized as a famous victory for the Janata government's policy on deficit spending. This claim needs to be probed into. In the first place, it is not true that the additional tax effort has been of the order of Rs 142 crores. Earlier the government had raised the export duties on coffee and imposed a new ex-

port duty on tea. As a result, the government expects Rs 16.63 crores more revenue from the export duty on coffee and Rs 109.55 crores from the export duty on tea. Thus, there has been earlier taxation to the extent of Rs 126 crores, which means that the total tax effort so far during the current financial year is not the Rs 142 crores figuring in the regular budget speech, but Rs 268 crores.

It is true that these changes in export duties, which have made a substantial contribution to the tax effort, were made possible by the boom in the world market

Boom in Prices

price of the commodities concerned and that consequently taxing these exports does not tax the public in this country. On the contrary, this act benefits domestic consumers of these commodities by helping to take some of the heat off the prices in the home market. This proposition is reasonable enough, but I would nevertheless take leave to wonder whether Mr Patel would have been able to limit his new tax exercises in the regular budget to the figure of Rs 142 crores had he not been able to take advantage of the spurt in the export values of coffee and tea. In other words, the tax effort as an exercise in reducing the budget deficit has been quite modest. This of course could be in some ways a point in favour of the government, but when the quantum of the new taxation is considered along with its even more modest achievement in effecting economies in public expenditure, the conclusion becomes irresistible that Mr Patel's performance in the area of fiscal discipline has by no means been outstanding.

Above everything else, there is that enormous nigger in the woodpile. Here I am referring to the mention in Mr Patel's budget speech of the government's proposal "to borrow Rs 800 crores against drawal of foreign exchange reserves". This proposal is also part of the legacy which the present government has inherited from the previous government since this decision had been written into the interim budget estimates, but this is an item of its inheritance with which the new government does not seem to have any quarrel. All the same, when presenting the interim

budget, Mr Patel, having to make a reference to this proposal, did seem to have some mental reservations. It should be useful to quote him verbatim. On that occasion. Mr Patel said of the interim budget that "it takes credit for special borrowings of the order of Rs 800 crores against drawal of foreign exchange reserves, *the assumption being that such borrowing would be non-inflationary, as it is covered by increased imports of goods.*" (Italics ours). In the Indian Civil Service Mr Patel had enjoyed a great reputation for the excellence of his drafting. It may therefore be assumed that he had chosen his words carefully with a concern for the precise meaning they were intended to convey.

To me it appears that he was taking care to make it evident that the assumption that such borrowing would be non-inflationary was one which the previous government had made and with which the present government might not necessarily be in agreement. This was perhaps the reason why this proposed device for

financing the deficit, although novel, did not attract much discussion then. The general attitude was to treat the interim budget proposals as out-of-date, especially as the present Finance minister was making heroic noises about a new deal in budget planning and management. In retrospect, it could be seen as a grievous omission on the part of those who were concerned about the reemergence of inflation and the appearance of new inflationary developments in the economy. It is possible that had this proposal been properly debated at the time, Mr Patel might have had second thoughts, or he could at least have offered some explanation on or defence of his final decision incorporating this proposal in the regular budget.

As it is, we have not so far had an adequate explanation of why or how Mr Patel has changed his mind from an attitude of non-committal to one of active compliance. To me this seems to be the most striking instance of a person's conversion since Mr T.A. Pai decided to air

publicly his alleged grievance against Mr Sanjay Gandhi looking into government files during the emergency.

In any case the government must move forward, sooner rather than later, with an adequate explanation of the proper mechanism of the special borrowing from the central banking authority and dispel all reasonable doubts about its inflationary character. It is pertinent to recall that, on an earlier occasion, when sterling balances were being utilized through more conventional fiscal procedures, there was a raging controversy in the country about the inflationary possibilities of the transaction. Again, there was a running debate on the inflationary impact of the utilization of PL counterpart rupee funds as budget support. It is of course necessary that the government should try to utilize for the development of economy as large a part of foreign exchange reserves as it profits can during any given period of time. The increased inflow of imports and the deficit which has stepped up the utilization

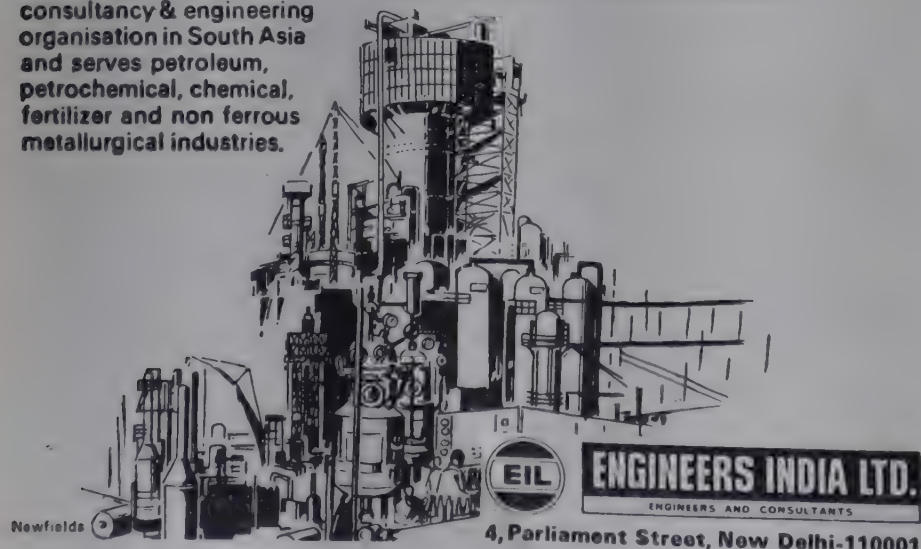


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the country's foreign exchange reserves would produce a deflationary effect on the economy. What is not clear, however, is why the government should propose for the first time to borrow from the Reserve Bank against drawal of foreign exchange reserves.

In the normal course, the foreign exchange reserves will be reduced as imports are liberalized, as the government has already done to some extent, and the economy is able to absorb more imports either because of domestic shortages or because the level of business activity in terms of both production and investment in the private and public sectors moves up. In these circumstances government receipts will benefit through increased realization from import duties. Apart from this, it is not at all clear how non-inflationary receipts could be made to accrue to the government through increased utilization of foreign exchange reserves for financing larger imports.

Much is sought to be made of the fact that these exercises in special borrowing against foreign exchange reserves would be covered by the import of goods and would therefore be non-inflationary since the physical balance of goods and money

Special Borrowing

supply would change in the direction of counteracting the inflationary pressures released by the spending of the borrowed money by the government. But, surely, the additional imports would arise not because the government needs to borrow against the drawal of foreign exchange reserves, but because the economy would use more imports and the government's trade policy makes it possible for these imports to be effected. At the very least, pending a proper, official account of the mechanics and economics of the device proposed, it has to be assumed that the larger imports, which would otherwise have had a substantial anti-inflationary impact on the economy, might be prevented from serving this purpose because the government proposes to borrow against drawal of foreign exchange reserves for financing the major part of the huge deficit of Rs 1,432 crores exposed for the first time in the interim budget of 1976-77. So long as this manner of securing budge-

tary support is not cleared of all suspicion of inflationary doings, the final residual budget deficit of Rs 72 crores figuring in the concluding part of Part B of the Finance minister's speech cannot be accepted at its face value. This is not a happy situation.

The tax proposals are discussed in detail in the subsequent chapters. Here, some broad observations may be made. One of the popular features of the budget is the raising of the exemption limit for income tax from Rs 8,000 to Rs 10,000. This step

Broad Observations

had been widely anticipated since this was one of the vote-catching pledges included in the election manifesto of the Janata party. It is estimated that more than a fifth of the total of 3.8 million income tax assesseees will now escape the tax net as a direct result of the raising of the exemption limit. Moreover, a large number of salaried employees, having an annual income of up to Rs 15,000 per year, can now free themselves from any income tax liability by taking advantage of the various rebates or other tax concessions admissible to them. Surely this does not work out to any redistribution of wealth as between the vast poor of this country and the minority of relatively better placed middle or upper middle class. If there is any redistribution at all, Mr Patel has taken care to see that it is confined to the community of income tax assesseees only.

His decision to increase the surcharge from 10 per cent to 15 per cent, thereby pushing up the ceiling on the marginal rate of taxation on the higher income slabs from 66 per cent to 69 per cent has been explained as an arrangement intended to see that the government does not have to suffer any loss of revenue from the raising of the exemption limit. Incidentally this loss has been kept as low as possible by keeping the nil tax slab unchanged at Rs 8,000. The Finance minister expects an additional yield of Rs 23.20 crores from these changes in the income tax structure. This means that, besides making a net contribution to government revenue receipts, these changes have also helped to finance the raising of the exemption limit. This implies transfer of re-

sources from one section of income-tax assesseees with a high propensity to save to another section with a higher propensity to consume. Since no new incentives have been given in this budget for personal savings, the effect of this shift should be adverse to the promotion of the savings of the household sector. However it must also be noted that an increase in the purchasing power of the income-tax assesseees benefiting from the raising of the exemption limit might help to revive demand for certain consumer goods, including semi-durables and durables. A number of industries, at present languishing from a recession in or stagnation of the off-take of their products might await this development hopefully and it remains to be seen how significant it proves to be in pulling some of these industries out of the doldrums.

The stepping up of the rate on the highest slab of income by three per cent to 69 per cent is definitely a retrograde step. It has been the experience of the government in this country that the growth of the income-tax base and consequently the

Retrograde Step

growth of income-tax receipts are hampered and not helped by increases in the tax rate which run the risk of discouraging earnings and savings among the higher income groups. The Finance minister himself has said that he shares the conviction that high income tax could be counter-productive. Obviously he does not have the courage of his convictions. Quite possibly it is a political purpose rather than a revenue purpose which is being sought to be served by reversing the trend towards lowering the highest marginal rate of taxation to, say, 60 per cent by stages as income-tax receipts respond to the progressive moderation of the tax rate. The previous government, through its last two budgets, was clearly working towards this goal. It has come as an unpleasant surprise that the present government, while professing to be wedded to the revival or reinvigoration of the economy, has turned its back on it. It has also been rightly pointed out that the raising of the tax burden through an increase in the surcharge aggravates the discrimination which already inheres in the tax administration in favour of those

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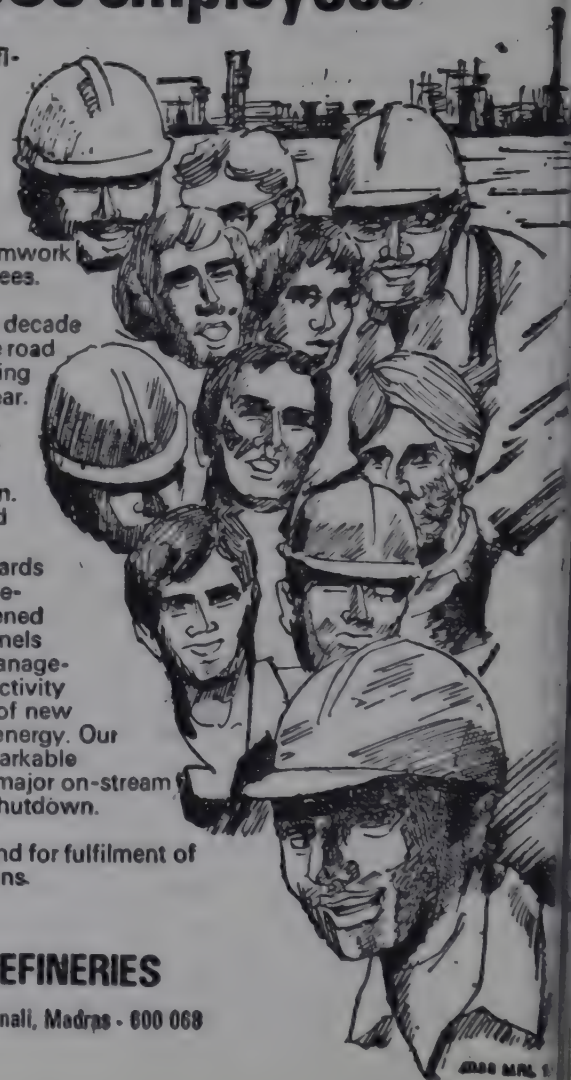
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business incomes or those salaried employees who enjoy tax-free perquisites or deriving unaccounted incomes as against those assesseees with their incomes in the form of salaries that do not admit of various tax benefits such as tax-free perquisites or opportunities for avoidance of taxation. In other words, the assessee who is honest either by choice or out of necessity, is once again being penalised. When the present Finance minister is so hotly crusading for the simplification of tax administration and the promotion of mutual trust and cooperation between assesseees and the administration, it is at all appropriate that he should take a decision which discourages the law-abiding taxpayer and puts a premium on tax evasion and corruption in the administration.

The Finance minister has decided to nullify the reductions in the wealth tax rates effected in the budget for 1976-77. Mr Patel's justification is that his predecessor had brought down the wealth tax rates to absurdly low levels. Even so, his move to restore part of the reduction by effecting increases in the wealth tax rates from the levels in 1976-77 budget could have been more reasonable had he not also increased at the same time the rates of taxation on the higher slabs of income. We cannot too strongly emphasize the truth that the aggregate burden of personal taxation has to be reduced rather than increased if savings, investment and economic activity are to improve. Without this foundation, even such encouragement as may be given to corporate earnings, profits or capital formation cannot have any efficient meaning for the objective of speeding up industrial expansion. Incidentally, Mr Patel's decision to apply these changes in the wealth tax rates proposed to him to the current assessment year seems to lack sufficient justification. It is true that it prevents some loss of revenue to the government for the current financial year, but it does so only at the risk of undermining the tax-payer confidence in the government's sense of fair play. Some comfort, however, is to be drawn from the fact that the Finance minister has turned a friendly eye on capital gains.

It is undoubtedly more pleasant to turn

to the Finance minister's treatment of the corporate sector. The new investment allowance scheme could be welcomed without reservation. It is an excellent idea to replace the list of industries to which the scheme is applicable by a short list of industries to which it is not applicable. The former list was too arbitrary and grudging and it has defeated the purpose of the investment allowance scheme which is to help the industrial sector to generate from its own earnings more of the resources needed for modernisation and expansion. It is interesting to note that the previous development rebate had been abolished by Mr Morarji Desai when he was the Finance minister on the ground that it had outlived its utility. That was a premature verdict. The industrial sector has now got back its development rebate in a more regulated but still liberal form. The government's decision to liberalize or otherwise facilitate the import of capital goods, taken with the near-generalization of the investment allowance, is an excellent tonic for the manufacturing sector of the economy. Incidentally, no serious fault can be found with the schedule of industries to be excluded from the scope of the scheme.

There is perhaps some strain in Mr Patel's temperament which compels him to be ashamed of his own generosity. How else is he going to explain the withdrawal of the option given last year to companies to pay either the full surcharge on income tax or pay five per cent less and deposit an equivalent amount with the Industrial Development Bank of India for a period of five years? It is not even as if the IDBI has a surfeit of funds or cannot make use of more resources, if available, for its objectives of industrial promotion. The Finance minister of course has admitted frankly that he has been tempted by the additional revenue of Rs 56 crores promised by this change. The revenue argument however is not sufficiently valid if considered in the light of an earlier discussion on the government's commitments for Plan or non-Plan expenditure. The necessity for more revenue which the Finance minister is pleading on this occasion is

clearly an artificial one of his own making.

The investment allowance is being allowed at the rate of 25 per cent of the cost of acquisition of new machinery and plant. However, a higher rate of 35 per cent will be applicable to machinery and plant installed for the manufacture of any article made in accordance with the know-how developed in government laboratories, public sector companies and universities. The purpose is a laudable one of promoting scientific and technological self-reliance. It will be served even better if the know-how developed in the private sector is not discriminated against.

It has been argued that the exclusion of this know-how is warranted by the fact that R & D in the private sector already enjoys tax-free fiscal incentives. But, then, are not government laboratories and universities being given grants or subsidies financed by the tax payer and is it not true that public sector undertakings derive their equity capital from public revenues? In any case, the movement or transfer of know-how from a unit in the private sector where it has been developed to other units in that sector is clearly beneficial for the economy and, therefore, it does not deserve to be denied the benefit of a measure designed to promote scientific and technological self-reliance in the nation.

Industrial undertakings, which are set up in rural areas and which begin their manufacturing activity after June 30, 1977 are to be allowed a reduction in the computation of their taxable profits of an amount equal to 20 per cent of the profits for a period of ten years. This concession is intended to encourage the setting up of small industrial undertakings in the rural areas. It will also help prevent further agglomeration of factories in congested cities or other urban areas.

Of considerable importance to the restoration of health in the areas of the economy plagued with sick industrial units is the facility proposed to be given to the voluntary amalgamation of sick industrial units with sound ones. Where

an amalgamation is accepted by the central government to be in the public interest, the accumulated loss and unabsorbed depreciation of the amalgamating company will be allowed to be carried forward and set off in the hands of the amalgamated companies. Certain safeguards will have to be provided for ensuring that the incentive is not abused. At the same time, the scheme should be so framed and its provisions so interpreted that the basic objective is adequately served, while the legitimate interests of the exchequer are protected.

In the field of indirect taxes, the Finance minister's chief claim to praise must be that he has avoided taxing articles of essential consumption and consequently any post-budget hike in the cost of living. At the same time it is to be noted that the budget has failed to give any relief in excise duties on manu-

Failure to Give Relief

factures of mass consumption or products of industries which have serious marketing problems because of poor off-take. Already the Finance minister is being flooded with representations from affected industries. Perhaps the janata would have been better served if the Finance minister, instead of raising the income-tax limit to Rs 10,000, used the money for lowering central excise taxation in a manner that could have given some relief to a wider public. There have been increases in a few excise duties and these are expected to fetch a net yearly increase of central excise duties estimated at Rs 90.6 crores. This is not by any means a small sum. However, Rs 30 crores of this total is proposed to be raised by doubling the one per cent general excise duties levied on commodities which do not attract excise duties under any specific heads. This would at least scatter the burden on a very wider area. Moreover, as much as Rs 45 crores are to be secured from further taxation of tobacco products. This may not be popular among smokers, but the general public need not lose any sleep over it.

The changes in customs duties may be briefly commented upon. While more discrimination could have been exercised

in selecting items for reduction, a generally more liberal policy could have been adopted towards import duties as a whole so that it became easier for the government and the economy to realise its aim of raising the level of useful imports substantially and thus setting some of the accumulated foreign exchange reserves to work.

Finally, one leaves this budget with the impression that it has made no contribution to the promotion of savings or the

Cause for Anxiety

stimulation of new investment through the activation of the capital market. It has not given any worthwhile relief either to consumers taxed by high prices or to industries grounded by lack of demand. In macro-economic terms, it has delivered no effective blow at the inflationary pressures in the country. On the contrary its failure to effect material reductions in public expenditure and its proposal for borrowing Rs 800 crores against the drawal of foreign exchange reserves has given a grave anxiety regarding the future course of monetary expansion and the wholesale price level. That there has been a conspiracy of silence between govern-

ment and the opposition during general debate on the budget is an important issue affecting economic stability is a disturbing thought. Nonetheless there is no need to be too pessimistic. Provided the government is to prevent any deterioration in industrial peace, improve power supply and generally raise the efficiency of the administration dealing with the problems of the country, the growth of the economy will not be halted. Again, unless the monsoon cheats us, the supply position of commodities, such as raw cotton and seeds could improve and this would lead to the easing of the pressure on the cost of living. Meanwhile, grain stocks are large and the grain trade has been active. These are *plus* points for economic stability. There is also reason to believe that, in the case of the budget estimates of Plan outlays, the government will come out of sheer necessity, end up by spending less. Should this happen, the credit financing written into the budget, although in a secret code, will turn out to be a false alarm. It must be our hope that the government's policy will be successful.

—V. Balasubramanian

Eastern Economist 30 Years Ago

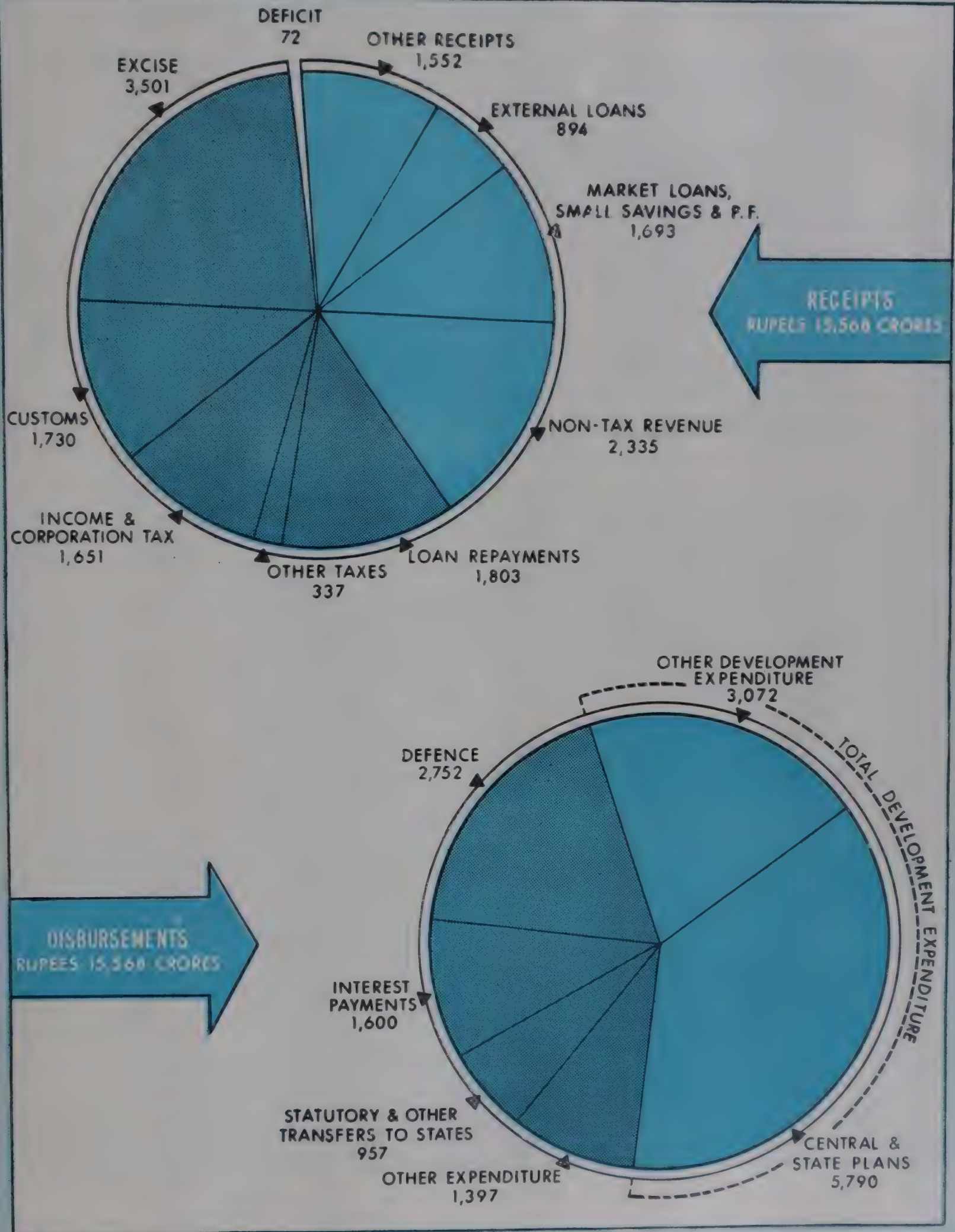
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The most cheering news of the week was the report that high level discussions are going on between the Viceroy and the dissentient Indian States. Representatives of forty Indian States as well as of four hundred "residuary group" states are expected to attend the session of the Constituent Assembly of the Indian Union which is scheduled to meet on the 14th July. The *New Statesman and Nation* has wisely cautioned the British Cabinet that "we ought not to back reactionary princes with our bayonets". No question of British bayonets now exists whether to support the recalcitrant states or to oppose them. But even though the legal status of the states is far from clear, the dangers of independence have become clearer within the last one week. Madras is withdrawing the officials lent to Travancore and has already imposed a ban on the transport of

pulses into the State from the district of Tinnai. With an area of a bare 7,660 square miles and a population which already in 1941 was in excess of six millions. Travancore will find that price of independence will have been dearly bought. How long this independence will last is of course difficult to say. The Dewan obviously depends on help from Pakistan, but transport costs for imports into Travancore from the Madras Dominion will be enormous even if one considers the extent to which the state subjects are dependent on the Indian Union for imports of food. It is extremely unlikely that independence will be a reality for more than a few months. Whether this declaration will be operative will depend on the Viceroy's success in the negotiations which are now apparently being conducted. If one may judge from the Viceroy's record, the problem will not be insoluble.

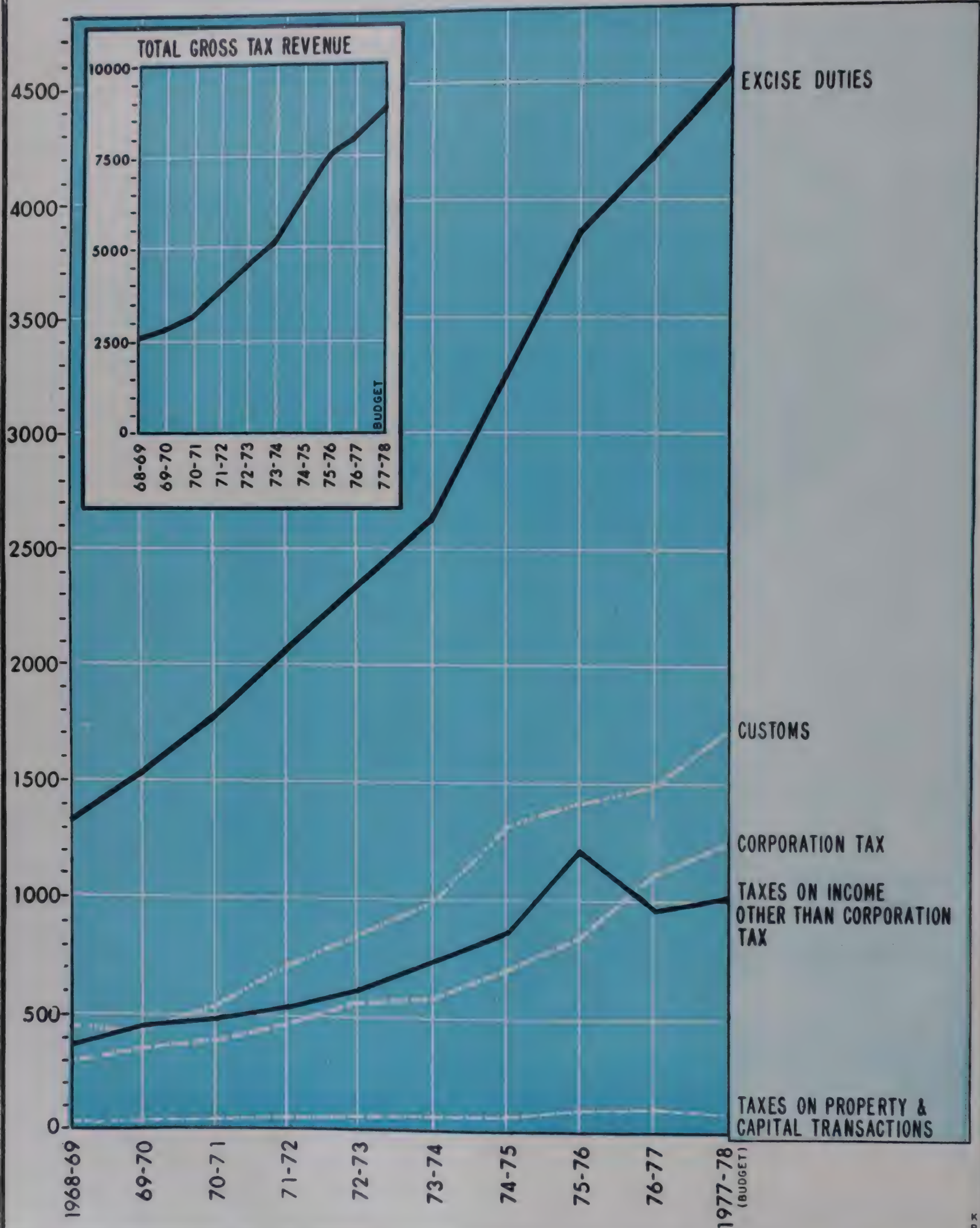
BUDGET: 1977-78

RUPEES CRORES



TAX REVENUE : 1968-69 — 1977-78

RUPEES CRORES



Back to confiscatory taxation

SINCE independence in 1947, the annual budgets of the government of India have continued to grow in financial terms year after year, though the rate of increase in revenue from indirect taxes has been faster than the one from direct taxes. In the 50's, it was discovered that direct taxes had reached very near the ceiling limit and any additional revenue which the government desired to have could only be mobilised through increased direct taxes. For instance, in 1950-51 direct taxes constituted nearly 43 per cent of the total tax revenue. In the budget for 1977-78, the share of direct taxes in total tax revenue has come down to 30 per cent only.

The various official committees which came into the question of direct taxes in recent years came to the conclusion that confiscatory rates of taxation had led to the proliferation of black money.

Proliferation of black money In view of this finding, the Congress government started the process of reducing the direct tax rates. The Janata party had also promised through its election manifesto to reduce the burden of direct taxes by raising the income-tax exemption limit from Rs 8,000 to Rs 10,000. The Janata party had also pledged to withdraw the Compulsory Deposit Scheme (CDS). The latest budget shows that the Janata party has honoured its pledges in letter but not in spirit.

After a number of years, the budget for the current year relies heavily on raising resources through direct taxes. Whereas funds proposed to be raised through indirect taxes are of the order of Rs 68 crores (including the share of the States), the burden of new direct taxes is estimated to be higher at Rs 92 crores. In the view of the Finance minister, H.M. Patel, that last year Mr C. V. Ramani, the then Finance minister, had reduced the direct taxes both in the case of income tax and wealth tax to

exceedingly low levels and that he was justified in raising the tax rates for reducing disparities of income and wealth.

In its election manifesto for the Lok Sabha, the Janata party had promised, as stated earlier, to raise the income tax exemption limit from Rs 8,000 to Rs 10,000 if it was voted to power. Earlier, the Congress government had raised the exemption limit from Rs 6,000 to Rs 8,000 in June 1975.

The Finance minister has raised the exemption limit by providing in the finance bill that "no income-tax shall be payable by individuals and Hindu Undivided Families whose taxable income does not exceed Rs 10,000". (See Table I). According to the ministry of Finance, the number of assesseees who will benefit from this change is expected to be about 823,000. Surely this is a sizeable number of tax-payers who will derive additional benefit. The loss of income tax due to the new relaxation is not expected to be significantly higher than the expenditure incurred in handling so many cases by the income-tax department. What is more, it will give additional time and opportunity to income-tax officers for scrutinising the income-tax cases of assesseees in upper income brackets which may result in increased yield of tax revenue.

The latest year for which data are available for the distribution of income tax of individuals income-wise is 1974-75 (See Table II). Out of a little more than

Pruning of Assesseees

two million individuals as many as 1.3 million income-tax assesseees had an income of below Rs 10,000 per annum. Nearly 0.9 million of them were removed from the list of assesseees when the exemption limit was raised from Rs 6,000 to Rs 8,000 in 1975. Surely a sizeable number of assesseees were brought into the income-tax net under the income-tax disclosure scheme during the emergency, even though the data for 1974-75 place about 400,000 assesseees in the income

bracket 7,501-10,000. Their number, according to Finance ministry sources, got doubled. All these assesseees will escape the income-tax net after the proposal mooted in the Finance Bill for raising the income-tax limit is accepted. A small number of assesseees will join their ranks from the other categories such as Hindu Undivided Families (See Table III).

The raising of the exemption limit in the past has proved beneficial to all income-tax assesseees. For instance, when the exemption limit was

Deviation from Practice

raised from Rs 6,000 to Rs 8,000, it was made applicable to all assesseees. In the current year's budget proposals, the Finance minister has made a deviation from this practice in the sense that those having taxable income above Rs 10,000 per annum will not enjoy the tax exemption benefit. In order to eliminate certain incongruities in marginal cases, two stipulations have been made.

Where the total income exceeds the exemption limit of Rs 10,000 by a small margin, the income-tax payable will be the lower of (a) the tax excluding surcharge as calculated in accordance with the rate schedule, or (b) an amount equal to 70 per cent of the amount by which the total income exceeds the exemption limit of Rs 10,000. Table IV illustrates this point. For a total income of Rs 10,540, amount of income tax calculated by the second method is lower than the amount arrived at by the first method. In this case, the income tax payable will be Rs 378 and not Rs 381. On the other hand when the total income is Rs 10,550, income tax on the basis of the second method of computation is higher than that of the first method. In this case the income tax payable will be Rs 383 and not Rs 385.

The Finance minister has taken a retrograde step in enhancing the surcharge on income tax from 10 per cent to 15 per cent. The net effect of this provision is to increase the tax burden all along the line beginning with an income of

TABLE I
Income Tax Rates : 1973-74—1977-78
Applicable to individuals, HUFs, Unregistered Firms etc.

(Percentage of income)

Range of income Rs			1973-74	1974-75	1975-76	1976-77	1977-78*	Suggested by Wanchoo Report
Upto	—	5,000	Nil	Nil	Nil	Nil	Nil	Nil
5,000	—	6,000	10	Nil	Nil	Nil	Nil	10
6,000	—	8,000	10	12	Nil	Nil	Nil	10
8,000	—	10,000	10	12	17	15	Nil	10
10,000	—	15,000	17	15	17	15	15	15
15,000	—	20,000	23	20	20	18	18	20
20,000	—	25,000	30	30	30	25	25	25
25,000	—	30,000	40	40	40	30	30	35
30,000	—	50,000	50 (30,000-40,000)					45 (upto 40,000)
			60 (40,000-50,000)	50	50	40	40	50 (40,000—50,000)
50,000	—	70,000	60 (50,000-60,000)					55 (50,000—60,000)
			70 (60,000-70,000)	60	60	50	50	60 (60,000—70,000)
70,000	—	100,000	70 (70,000-80,000)					
			75 (80,000-100,000)	70	70	55	55	65
More than	100,000		80 (1,00,000-2,00,000)					
			85 (above 2,00,000)	70	70	60	60	65

Note : Income-tax rates relate to financial years. *Surcharge 15 per cent as against 10 per cent for earlier years.

TABLE II
Classification of the Income-tax Payable by Assesseees According to the Ranges of Total Income
Assessed for the Year ending March 31, 1975.

INDIVIDUALS

Range of total income assessed Rs			No. of assesseees	Income assessed Rs. (000)	Income-tax Rs. (000)	Surcharge Rs. (000)	T Rs.
Below		5,000	54430	24,75,85	90,35	9,24	
5,001	—	7,500	827737	500,73,95	15,95,54	1,68,12	17
7,501	—	10,000	402170	341,86,53	14,93,54	1,51,57	16
10,001	—	15,000	405696	495,70,88	33,54,52	3,46,63	33
15,001	—	20,000	163651	278,45,97	29,45,23	4,05,45	33
20,001	—	25,000	76857	170,63,19	25,12,67	3,43,94	28
25,001	—	30,000	40224	109,75,83	19,67,43	2,78,38	22
30,001	—	40,000	39232	134,30,30	31,44,25	4,51,27	35
40,001	—	50,000	17004	75,52,67	22,83,99	3,26,73	26
50,001	—	60,000	8290	45,16,16	16,04,07	2,27,71	18
60,001	—	70,000	4668	30,11,44	11,88,11	1,73,38	13
70,001	—	1,00,000	5667	46,50,09	25,84,99	2,99,40	23
1,00,001	—	2,00,000	3074	40,75,08	23,12,40	3,37,96	26
2,00,001	—	3,00,000	482	11,50,12	7,52,73	1,07,73	8
3,00,001	—	4,00,000	158	5,46,38	3,63,71	50,40	4
4,00,001	—	5,00,000	89	3,92,82	2,74,74	40,11	3
Over		5,00,000	218	37,75,10	28,93,02	4,15,42	33
Total			20,49,647	23,52,92,36	308,61,29	41,33,44	349

0,000. Table V below shows the impact of this measure. For an annual income of Rs 20,000 the additional tax payable is of the order of Rs 98. Surely this is a very heavy burden but it has come in the wake of a healthy policy initiated by the previous Congress government in reducing the income tax burden because the Wanchoo Committee report had clearly pointed out that high rates of taxation under the direct tax laws had been the central cause for widespread tax evasion and the consequent proliferation of black money. It is worthwhile recalling the comments of the Wanchoo Committee: "When the marginal rate of taxation is as high as 65 per cent, the net profit of concealment can be as much as 4300 per cent of the after-tax income. The implication of a 65 per cent income tax is that it is more profitable at a certain level of income to pay the tax of Rs 30 than to earn honestly Rs 10,000. We will not be surprised that in such a situation, it would be difficult for a person to resist the temptation to evade tax". The voluntary disclosure scheme during the emergency had brought forth disclosures of more than Rs 1,000 crores which was proof positive, in my opinion, that no further proof was needed, of the demoralising effect of high taxation in this country.

TABLE III

Income tax Assessments in 1974-75
(Rs in crores)

Category	No. of assess-ments	Income assessed	Tax payable
Individuals	2049647 (86.5)	2352.9 (57.1)	349.9 (38.8)
Undivided families	72351 (3.1)	121.9 (2.9)	28.7 (3.2)
Registered firms	14040 (0.6)	32.6 (0.8)	13.5 (1.5)
Association of persons	8507 (0.4)	27.0 (0.7)	12.9 (1.4)
Registered firms	211804 (8.9)	888.4 (21.6)	86.0 (9.5)
Companies	10926 (0.5)	697.8 (16.9)	409.2 (45.6)
Total	23,67,275	4120.6	900.2

The Congress government had initiated a healthy move by continuously reducing the income-tax rates which at the higher

TABLE IV
Individuals

Total income Rs.	Income-tax calculated at the rate laid down in the rate schedule Rs.	Income-tax at 70 per cent of the excess over Rs. 10,000 Rs.
10,100	315	70
10,200	330	140
10,300	345	210
10,400	360	280
10,450	368	315
10,500	375	350
10,540	381	378
10,550	383	385

income levels (an income of more than Rs 100,000) was even lower than the one suggested by the Wanchoo Committee. Naturally this step had been hailed by income-tax payers and it was felt that the government's policy of reducing income-tax rates was gradually approaching the suggestion of Prof N. Kaldor who had recommended that the top marginal rate of income should not rise above 45 per cent including surcharge. Because of the proposed change in surcharge, the maximum marginal rate of personal income tax will rise from 66 per cent as at present to 69 per cent. Granted that the volume of increase in surcharge is not staggering but the basic idea underlining this policy is likely to increase public anxiety because it reverses a healthy process of reducing tax rates initiated by the former government. A study of the income-tax rates prevalent in other developing countries of Asia shows that economic growth has been the

TABLE V

Comparative Incidence of Tax at Selected Levels of Income in the Case of Individuals

Income Rs	Tax (including surcharge at the rate of 10 per cent) at the existing rates Rs	Tax (including surcharge at the proposed rate of 15 per cent) with exemption limit raised to Rs 10,000 Rs	Increase/reduction in tax Rs
8,000	Nil	Nil	Nil
10,000	330	Nil	(—) 330
11,000	495	518	(+) 23
12,000	660	690	(+) 30
12,500	743	776	(+) 33
15,000	1,155	1,208	(+) 53
20,000	2,145	2,243	(+) 98
25,000	3,520	3,680	(+) 160
40,000	9,570	10,005	(+) 435
50,000	13,970	14,605	(+) 635
60,000	19,470	20,355	(+) 885
70,000	24,970	26,105	(+) 1,135
80,000	31,020	32,430	(+) 1,410
90,000	37,070	38,755	(+) 1,685
1,00,000	43,120	45,080	(+) 1,960
1,50,000	76,120	79,580	(+) 3,460
2,00,000	1,09,120	1,14,080	(+) 4,960
2,50,000	1,42,120	1,48,580	(+) 6,460
3,00,000	1,75,120	1,83,080	(+) 7,960
5,00,000	3,07,120	3,21,080	(+) 13,960
10,00,000	6,37,120	6,66,080	(+) 28,960

fastest where the maximum rate of income-tax does not exceed 50 per cent. There is no doubt that there will be great resentment against this measure among four to five million income-tax assesseees.

Last year Mr C. Subramaniam reduced the incidence of tax on wealth by a wide margin. The relief which he provided in regard to wealth tax was consistent with the one which he had initiated in regard to income tax; however, since Mr H.M. Patel has increased the incidence of income tax by raising the surcharge from 10 per cent to 15 per cent, he has applied the same yardstick to wealth tax rates as well because he feels that the lowering of wealth-tax rates last year had been taken to an unjustifiably low limit. He has also put forward the argument that the essential objective of wealth tax is to disallow excessive accumulation of wealth in individual hands. He has therefore raised the rates of wealth tax. The incidence of wealth tax as indicated in the Finance Bill 1977 has increased in relation to last year but continues to be significantly lower than that of Finance Act 1974 (See Table VI).

The yield from this source of tax has improved significantly in recent years. While in 1970-71 wealth tax yielded

only Rs 11.11 crores, it rose to Rs 59 crores in 1976-77, according to revised estimates. This includes the receipts equivalent to Rs 2.36 crores under the voluntary disclosure scheme. It has been estimated that the wealth tax yield in 1977-78 would have fallen to Rs 45 crores if the Finance minister had not raised the wealth tax rates. Now it is estimated that there might be an increase of Rs 10 crores from this source i.e. the yield from wealth tax is expected to be around Rs 55 crores (see Table VII).

TABLE VII
Wealth Tax

(Rs in crores)

1955-56	Nil
1960-61	8.15
1965-66	12.05
1970-71	11.11
1976-77 (revised)	59.00
1977-78 (budget)	55.00†

†Including Rs 10 crores resulting from changes in Finance Bill 1977

Mr Morarji Desai had laid down a sound policy in regard to the application of changes in income-tax and wealth tax rates when he was the Finance minister.

As a rule, changes were made applicable to income and wealth prospectively not retrospectively. Mr Patel has proposed that the increased rates of wealth tax should be made applicable with effect from April 1, 1977. There is surely a case for making the increased wealth tax rates applicable from next year. The Finance minister had to make a choice between opting for a healthy principle set earlier by the prime minister or mobilising an extra Rs 10 crores during the current year; he fell for the latter option which may not win him many admirers.

The Janata party had promised in its election manifesto to scrap the Compulsory Deposit Scheme (CDS) but the changes proposed through the ordinance issued on May 6, 1977, fell far short of the expectations of the public. The further impounding of 50 per cent of additional emoluments was stopped but the second annual instalment which was to become payable on July 6, 1977, was proposed to be credited to the provident fund account of the employees; only a few who did not subscribe to provident fund account would receive the refund in cash. However, the deductions in the case of those earning more than Rs 15,000 a year would continue for a period of two years, according to the ordinance.

TABLE VI

Incidence of Wealth Tax

(Rs in thousand)

Net wealth	Individuals and HUFs (other than those having at least one member with net wealth over Rs 1,00,000)				HUFs having at least one member with independent net wealth over Rs 1,00,000			
	A	B	C	D	A	B	C	D
300	3	3	1.5	1.75	6	9	4.5	4.75
400	4	4	2.0	2.75	8	12	6.0	6.75
500	5	5	2.5	3.75	10	15	7.5	8.75
600	7	8	4.0	5.75	13	19	9.5	11.25
700	9	11	5.5	7.75	16	23	11.5	13.75
800	11	14	7.0	9.75	19	27	13.5	16.25
900	13	17	8.5	11.75	22	31	15.5	18.75
1,000	15	20	10.0	13.75	25	35	17.5	21.25
1,500	30	40	20.0	26.25	65	75	30.0	38.75
2,000	70	80	32.5	43.75	105	115	42.5	56.25

A = Wealth tax according to Finance Act 1973 B = Wealth tax according to Finance Act 1974
C = Wealth tax according to Finance Act 1976 D = Wealth tax according to Finance Bill 1977

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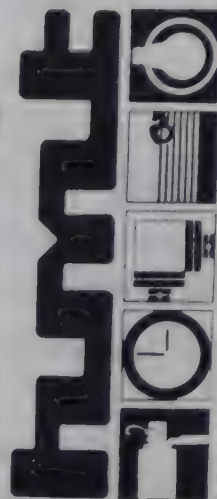
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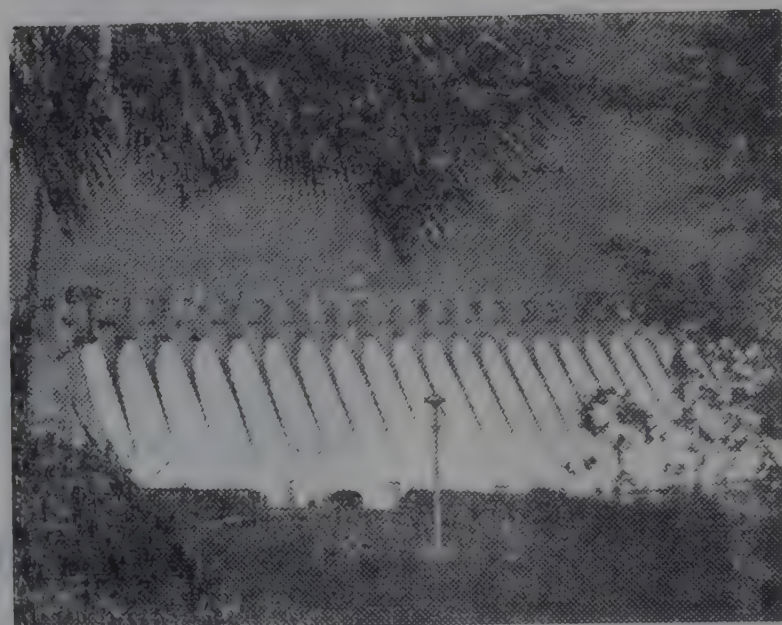
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to the budget proposals. Understand-
 ingly, the Finance minister has been forced
 to adopt this course in order to reduce
 the quantum of additional taxation, but
 in the process he has earned a bad name
 with the party to which he belongs. The
 mood of the people in the Janata party
 is somewhat shaken because of the
 failure of the Finance minister to honour
 the pledges made in the election manifesto.

The Finance minister has proposed
 some far-reaching changes in the taxation
 of capital gains because he has come to
 the conclusion that the present structure of

capital gains tax-
 ation is a hindrance to
 the adequate mobility of
 investible resources

and that it perpetuates investment in low
 priority assets. The preferential treatment
 accorded to long-term capital gain in tax-
 ation is justified on the ground that it pro-
 motes genuine investment and not specu-
 lative one. Also the gains are partly of
 an illusory kind being the result of conti-
 nuous fall in the purchasing power of
 money. These gains though made at the
 time of transfer are in fact the result of
 ownership by the tax-payer over a period
 of years.

The first proposed change is to reduce
 the period for holding the assets from 60
 to 36 months for earning entitlement to
 concessional tax treatment. This change
 has been initiated and rightly so to improve
 the mobility of capital assets. Second, a
 tax-payer at present has the option of
 opting the fair market value of the asset
 as on January 1, 1954 in place of the actual
 cost of acquisition if purchased earlier. To
 correctly determine the fair market value
 of the assets in a year almost a quarter
 of a century old, is indeed a difficult problem.
 The Finance minister has, therefore, shift-
 ed the date of evaluation by ten years
 from January 1, 1954 to January 1, 1964.
 This should go a long way in reducing the
 problems associated with the evaluation of
 assets. Third, capital gains are completely
 exempt from tax if the sale proceeds of
 any asset are reinvested within six months
 in shares, bank deposits, units of the Unit
 Trust of India and other preferred assets,
 the only condition being that the sale pro-
 ceeds should be kept reinvested for a period
 of three years. These changes are expected

to reduce the black money transactions
 associated with the transfer of property.

A word needs to be said about the defi-
 nition of "capital assets." According to
 the Income-tax Act, capital asset means
 property of any kind held by an assessee.
 It is immaterial whether it is in any way
 connected with his business or profession.
 However, the following four types of assets
 are specifically excluded from the scope of
 the definition of capital assets:

1. Any stock-in trade, consumable
 stores or raw materials held by the assessee
 for the purpose of his business or profes-
 sion;
2. Personal effects, being movable prop-
 erty including wearing apparel and
 furniture (and excluding jewellery) held
 for personal use by the assessee or any of
 the members of his family dependent on
 him;
3. Rural agricultural lands in India;
 and
4. 6½ per cent Gold Bonds, 1977 or
 seven per cent Gold Bonds, 1980 or
 National Defence Gold Bonds, 1980 all
 issued by the central government.

Urban lands which frequently change
 hands are entitled to the benefit provided
 by the Finance minister.

The budget proposals relating to
 personal taxation are harsh but the
 Finance minister has provided a number
 of incentives to the
Corporate Sector corporate sector such
 as liberalisation of investment allowance,
 the scheme to permit amalgamation of sick
 units with prosperous ones and the provi-
 sions for relief in taxes for expenditure in-
 curred on rural welfare schemes.

After permitting the industry to enjoy
 the benefits under the development rebate
 scheme for nearly two decades, the govern-
 ment of India decided to withdraw it. The
 Direct Taxes Enquiry Committee Report
 —popularly known as The Wanchoo
 Committee Report—endorsed this decision
 of the government as, in its view, the devel-
 opment rebate had outlived its utility.
 However, the government replaced it by
 "initial depreciation" which was available
 only once and was granted in addition to
 normal depreciation. This measure failed
 to enthuse the industry because the steep
 increase in capital costs of plant and
 machinery had become a big stumbling

block to expansion. Realising that the
 process of internal generation of resources
 in industry had been impeded, Mr C.
 Subramaniam, the former Finance minis-
 ter, scrapped initial depreciation and
 provided a new incentive—the investment
 allowance—equivalent to 25 per cent of
 the cost of acquisition of new plant and
 machinery. The essential difference between
 development rebate and investment
 allowance is that the latter can be with-
 drawn and subjected to normal taxation
 if it is not used for acquiring new
 machinery and plant. Also, it is available
 for the promotion of priority industries
 only.

After a detailed scrutiny of this
 allowance, Mr H.M. Patel has found that
 it is positively instrumental in stimulating
 industrial development but it has created

some confusion over
 the definition of the
 word "priority." The
 ministry of Finance

has found it difficult to explain to those
 units claiming eligibility why this incentive
 cannot be extended to them. In order to
 obviate this difficulty and also having
 sensed the need for encouraging the gener-
 ation of internal resources for financing
 investment, Mr Patel has extended the
 scope of investment allowance to all
 industries except those which are engaged
 in the manufacture of low priority items
 such as cigarettes, cosmetics and alcoholic
 beverages. There is no doubt that it will
 assist the industry in mobilising internal
 resources for expanding its capacity.

Besides extending the applicability of
 investment allowance, the Finance minis-
 ter has also raised the percentage of this
 allowance from 25 to 35 in those cases
 where plant and machinery developed in
 government laboratories, public sector
 companies and universities are installed.
 This extra incentive may go a long way in
 encouraging self-reliance in scientific and
 technical development. Over the years, it
 may prove to be a boon for indigenous
 growth of scientific and technical compe-
 tence. There is a definite case for extend-
 ing this concession to units in the private
 sector which fabricate plant and machinery
 on the basis of their own research and
 development.

Commenting on the liberalisation of the
 investment allowance the former Finance

minister, Mr C. Subramaniam, stated in Parliament that Mr Patel was going to depend, in the main, on the private sector for industrial expansion. When told that the public sector units also would benefit from it, he said that he would have liked the enlarged scope of this allowance to be confined to the public sector units only. It appears rather strange that while Mr Subramaniam is all for speedier growth of the industrial sector, he wants the investment allowance to be denied to the private sector units which are an essential and vital component of industry in our country.

The increasing number of sick industrial units in this country has posed a serious problem and the policy of state take-over by the former Congress government has hardly been found a satisfactory solution.

Sick Units

Some time back, the Finance minister, Mr H.M. Patel, had categorically stated that the Janata government was not interested in nationalising such sick units as were not economically viable, and that he was in favour of allowing such units to die a natural death. He has now come up with a solution to revive such units. He has proposed that in future sick industrial units should be allowed to amalgamate themselves with sound ones and that the government would encourage amalgamation wherever it was found to be in public interest. By way of incentive, the accumulated losses and unabsorbed depreciation will be allowed to be carried forward and set off in the hands of the amalgamated company.

Discussing this proposal in the Lok Sabha, Mr C. Subramaniam, the former Finance minister, expressed the fear that powerful industrial groups would buy up losses of sick units leading to further concentration of economic power. Mr Patel has stated that sufficient safeguards have been provided in the Finance Bill and that the proposed concession will be allowed on the recommendation of a specific authority. Only after it is established that a certain amalgamation is in the interest of the public, that the government will accord its sanction. This method of reviving the sick units deserves to be given a fair trial especially because it does not impose any financial burden on the

government. The National Textile Corporation which was established by nationalising sick textile units, has already accumulated losses to the tune of Rs 177 crores with the possibility of a further loss of Rs 30 crores during the current year. Surely, the course adopted by the former Congress government in this regard has become a perpetual burden on the exchequer and the proposal mooted by Mr Patel needs to be given a fair trial in the larger interests of the economy.

The Janata party is committed to improving the level of living of people in rural areas. The Finance minister has therefore provided incentives for encouraging companies to involve themselves in the work of rural welfare. A company which incurs expenditure on an approved programme of rural development will enjoy the facility of deducting this expenditure from taxable profits. Also, to encourage the setting up of small-scale industrial units in rural areas, he has proposed preferential tax treatment for industries set up there. They will be entitled to a deduction equivalent to 20 per cent of their profits from taxable profits. This concession will be available for a period of 10 years. Both these facilities are expected to encourage the flow of funds for rural development, resulting in increased economic activities and the absorption of the underemployed and the unemployed in profitable pursuits.

A few other proposals in the Finance Bill will bring cheer to certain groups of people. For example, the small investors in joint stock companies who receive dividends not exceeding Rs 250 will no

longer suffer the deduction of tax source. Hitherto, they faced great hardship in getting a refund of such deductions. Again, Indian technicians working for foreign governments or foreign enterprises enjoy the benefit of tax-free remittance up to 50 per cent. This concession has now been extended to Indians who work under Indian technicians in projects undertaken by Indian companies. The raising of the monetary ceiling for tax exemption from two lakhs of rupees to five lakhs of rupees for donations to charitable institutions is another good feature of the budget proposals.

The Finance minister has announced that the government will soon appoint a committee of experts to make recommendations for the simplification and rationalisation of the direct tax laws. It may be recalled that the final report on rationalisation and simplification of the structure in this country was submitted by Mr S. Bhoothalingam, former secretary to the ministry of Finance, in 1968. This was followed by the report of the Direct Tax Enquiry Committee in December, 1970. The latter was a comprehensive document which had taken almost two years to complete. It is questionable if there is a need for another enquiry into the direct tax laws when the recommendations of the earlier two committees have not been fully acted upon. Maybe, this committee will serve the purpose of gaining time before the Janata government is in a position to initiate any further action in this field.

—S. P. Chopra

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Indirect taxes : a judicious mixture

SENSIBLY, THIS year's taxation proposals of the union Finance minister, Mr H.M. Patel, presented to Parliament on June 17, are aimed at augmenting the revenue receipts of the central government by a net amount of nearly Rs 142 crores in a full year and Rs 130 crores during the period of 9½ months to March 31, 1978. The net additional receipts from direct taxes—income-tax, corporation tax, wealth tax, estate duty, etc—are estimated to be of the order of Rs 91.8 crores (approximately equal to the yield in a full year) and from indirect taxes (excise and customs levies) Rs 38.2 crores. This should suggest that the Finance minister has been quite conservative in levying new taxes, in comparison to the experience of the last several years when sizeable doses of additional taxation had been administered. A closer scrutiny, however, reveals that the fresh taxation this year has not been as mild as reflected by the above figures.

While presenting the interim budget for the current year, soon after the Lok Sabha election in March, Mr Patel had estimated a deficit of as much as Rs 1,432 crores

which had been reduced by him then to Rs 632 crores taking into consideration special borrowings to the extent of Rs 800 crores against drawals from foreign exchange reserves. The June 17 regular budget puts this year's deficit at only Rs 202 crores in the light of which the taxation proposals have been made. The March estimate of the deficit, thus, has been scaled down by nearly Rs 430 crores, partly through effecting savings in expenditure and enlarging the borrowing programme and partly by stepping up the revenue receipts estimate. If note is taken of the latter, the taxation effort of Mr Patel cannot be said to be a modest one.

The regular budget's estimate of revenue receipts is approximately Rs 154 crores

higher than the expectation of the interim budget. A small part of the increase in revenue (about Rs 7 crores) is anticipated under the excise head. The customs levies are now estimated to net as much as Rs 147 crores more than the yield anticipated in March. Of this, a sum of approximately Rs 21 crores additional is now envisaged to accrue from import duties owing to the liberalisation effected in the import policy and Rs 126 crores from export duties.

The additional revenue from export levies is not fortuitous. It is to result from three major changes made in the export duty structure in April and May. These were:

Major Changes

(i) imposition on April 15 of export duty on tea (other than on tea bags containing more than 2.5 grams net tea, packed tea in containers having one kilogram net tea and instant tea) at the rate of Rs 5 per kilogram; (ii) increase in the export levy on coffee on April 26 from Rs 1,300 to Rs 2,200 per quintal, later on reduced to Rs 1,600 per quintal on May 18; and (iii) levy of export duty on chromite ore and concentrates with effect from May 11 at a rate ranging from Rs 50 to Rs 200 per tonne, depending on the oxide content.

Taking into consideration the above, the additional taxation this year will be yielding not Rs 130 crores but as much as Rs 256 crores—Rs 92 crores under direct taxes and Rs 164 crores under indirect taxes. This incidentally should help in correcting another impression also. This is that, contrary to the general practice in the recent years, the Finance minister has relied more on direct levies than on indirect ones in the mobilisation of additional resources through taxation.

Of the additional revenue of Rs 164 crores expected to accrue as a result of the modifications in indirect taxes, the receipts from excise duties are estimated around Rs 42 crores. The remainder will be the

yield from changes in the customs duties structure.

Among the customs duties, the changes in the import levies are anticipated to yield an additional revenue of Rs 32.5 crores. The changes include: (1) revision of the basic import duty on exposed cinematograph films from the specific rate to an *ad valorem* rate; (2) increase in the import levy on acrylic yarn from 100 per cent *ad valorem* plus Rs 20 per kg to 100 per cent *ad valorem* plus Rs 30 per kg; (3) stepping up of the basic import duty on polyester fibre from 100 per cent to 140 per cent *ad valorem*; (4) enhancement of the basic duty on certain electronic components and materials to 100 per cent *ad valorem*; and (5) scaling up of the import duty (basic plus auxiliary) on raw wool (including wool tops) from 45 per cent to 75 per cent *ad valorem* and of the levy on woollen waste and woollen rags from 5 per cent to 25 per cent *ad valorem*.

Import Levies

The import duty (basic plus auxiliary) on watches and parts thereof has been reduced from 120 per cent to 45 per cent *ad valorem*. But as the imports of watches and parts thereof are expected to go up substantially, nearly Rs 12 crores additional revenue is expected to accrue from even the reduced impost. Additional revenue to the extent of slightly more than Rs 2 crores is anticipated from additional (countervailing) duties consequent upon the changes in excise levies.

It must, however, be stressed here that additional revenue to the tune of Rs 17 crores under the import levies on account of the increase in the duty on raw wool, wool tops, woollen waste and woollen rags is just a transfer of revenue from one head to another. This revenue would have accrued to the central government otherwise under the excise head. What the Finance minister has done is to shift the burden of excise duty to the customs head

by enhancing the import duty primarily for administrative convenience. The net additional revenue expected from the above changes in import levies in a full year, thus, will be Rs 15.5 crores.

This addition to the revenue, however, will be more than counterbalanced by the reliefs granted in import duties which in terms of value aggregate to Rs 37.6 crores. The four proposals of relief in import duty include: (1) reduction in the duty (basic plus auxiliary) on alloy steel and high carbon steel from 75 to 40 per cent *ad val rem*; (2) scaling down of the levy (basic plus auxiliary) on stainless steel plates, sheets and strips from 120 per cent and 320 per cent *ad valorem* to different rates ranging from 40 per cent to 120 per cent *ad valorem* depending upon the thickness of the material; (3) bringing down the duty (basic plus auxiliary) from 45 per cent to 40 per cent *ad valorem* and abolition of additional duty of Rs 5,600 per tonne on electrolytic copper used in the manufacture of certain specified types of electric motors, generators and transformers; and (4) lowering of the total incidence of import duty on newsprint by 50 per cent from 5 per cent *ad valorem* to 2.5 per cent *ad valorem*. The effect of these proposals will be a loss of revenue of the order of Rs 9.8 crores, Rs 14.65 crores, Rs 11.8 crores and Rs 1.4 crores on the four counts, respectively.

The overall effect of the changes in the customs duties in the regular budget for the current year, thus, will be a net loss of revenue of the order of Rs 22.2 crores in a full year. After taking note of transfer of revenue to the tune of Rs 17 crores from under the excise head to the customs head on account of the enhancement in the import levy on raw wool, wool tops, woollen waste and woollen rags, the net annual loss of revenue on customs account owing to the June 17 modifications will be Rs 5.2 crores. During the remaining 9½ months of the current financial year, it will be slightly lower.

No change has been made in the export duties imposed or enhanced in April and May on tea, coffee and chromite ore concentrates. The revenue of approximately Rs 126 crores from these levies,

therefore, should accrue as envisaged in the June 17 budget documents, unless they are not lowered through notification in the coming months.

The changes effected in the customs duties since April last, indeed, cannot be objected to. Besides yielding significant net additional revenue, they can have a salutary effect on the economy.

The export duty on tea, as mentioned above, was imposed with effect from April 9 at the rate of Rs 5 per kg with a view to bringing down tea prices in the domestic market. There can be no

Duty on Tea

denying the fact that this has had the desired result, even though the fall in prices at the recent auctions has not been fully upto expectations. This is due to the fact that the tea supply position in the international market continues to be tight. With a view to containing the price of tea in the domestic market, the minister of Commerce, Mr Mohan Dharia, has announced reducing of exports this year to 225 million kgs from 240 million kgs last year. Lest the exports of packed tea, tea bags and instant tea should suffer, these three categories of tea were exempted from the above levy. Some savings in governmental expenditure also had been effected in respect of tea exports by withdrawing the duty drawback on containers of all sorts filled with tea and on packing materials used in, or in relation to, such containers.

As in the case of tea, the export duty on coffee also was stepped up with a view to taking advantage of the high prices of this beverage in the world market and to mop up the windfall profits accruing to exporters. In the light of the changes in the international coffee market, the steep increase effected in the export duty on this beverage on April 26 from Rs 1,300 to Rs 2,200 per quintal, however, was scaled down later on by Rs 600 per quintal on May 18. A further reduction in this duty is not ruled out in the near future as the international prices have eased significantly. The export duty on chromite ore and concentrates was imposed on May 11 in the interest of conserving the limited resources of this material in the country.

The rationale behind the significant

reduction effected in the import duty watches and parts thereof is that domestic production of chronometers being insufficient to meet the growing demand, sizeable smuggling activity goes on in this field despite the stringent measures taken to curb it. Hindustan Machine Tools (HMT) has been asked to raise output of watches to the maximum. The policy for the import of component watches was liberalised to a great extent for this purpose. The HMT has not been authorised to import watches well to balance the overall supplies with the growing demand. These authorities imports should not only end smuggling in watches but also help in improving the profitability of HMT which can be availed of for containing the prices of HMT watches (which may otherwise go up due to mounting costs and levy excise duty on indigenous production at the rate of 10 per cent *ad valorem* against the general duty of one per cent and even those of machine tools produced by this undertaking in the larger interest of the country.

The reductions proposed by Mr Dharia in the import duties on electrolytic copper, alloy and high carbon steels and stainless steel plates, sheets and strips, similar

Judicious Reduction

are quite judicious. This has been done with a view to enabling the indigenous manufacturers of equipment and machinery to meet the foreign competition more effectively. This competition is expected to grow at least to some extent in view of the proposal to allow the imports of certain selected items of capital goods without prior scrutiny from the indigenous angle. The liberalisation of imports of capital goods, however, is not expected to be allowed to adversely affect domestic manufacturers. This is proposed to be taken care of through issue of specific guidelines about imports of capital goods which can be effected without prior scrutiny from the indigenous angle. The idea behind liberalising imports of selected items in capital goods is to stimulate industrial growth and consequently to enhance the competitiveness of our industry.

The import duty on stainless

ates, sheets and strips, of course, has been scaled down not only to enable the indigenous capital goods manufacturers reduce their production costs but also meet more fully the requirements of small manufacturers.

No explanation has been provided by the Finance minister for reducing the import duty on newsprint. This, apparently, has been done to enable newspapers to implement the interim relief granted to their employees recently and also to fulfil the Janata party's election pledge of allowing free discussions in a democratic set-up. Newspapers obviously have a great role to play in this regard.

The changes in the excise duties structure proposed by the Finance minister envisage accrual of a new additional revenue of about Rs 73.6 crores in a full year—Rs 53.8 crores to the centre and nearly Rs 19.8 crores to the states. The additional revenue expected to accrue during the 9½ months to March 31, 1978, will be Rs 57.9 crores—Rs 42.3 crores to the centre and Rs 15.6 crores to the states.

The excise proposals of Mr Patel fall

into three categories—(1) proposals aimed at raising additional resources; (2) grant of relief in some cases through reduction or abolition of excise levies; and (3) proposals seeking merely to rationalise and simplify the excise duty structure.

Among the above first category of excise proposals are included the following:

(1) imposition of 10 per cent duty on five new items namely—(a) hand tools and small tools not already excisable; (b) weighing machines and weigh bridges; (c) watches, clocks and time-pieces; (d) electric light fittings; and (e) polishes for footwear, metals, cars etc.;

(2) levy of duty at the rate of 12 per cent *ad valorem* on acetylene gas;

(3) doubling of the one per cent general excise levy on commodities which otherwise do not attract excise duties under any specific head at higher rates;

(4) accelerating the progression in the duty on cigarettes according to their value and raising of the incidence of the levy on bidis by one rupee per 1,000;

(5) changing of the basis for imposing

duty on exposed cinematographic feature films, advertisement shots and films not otherwise specified to *ad valorem* basis from the hitherto basis of the length and nature of the films and the number of their prints, the revised duty being levied at the rate of 10 per cent *ad valorem*;

(6) change-over from specific rates of duty on pigment paints, enamels, varnishes, etc., to *ad valorem* rates and fixing the *ad valorem* rates in such a manner that the incidence of duty on high cost items such as oil-bound paints, enamels, plastic emulsions and varnishes goes up by five per cent generally but remains more or less unaltered on the cheaper items such as blacks and dry distemper;

(7) increase in duty on motor vehicles from 15 per cent to 17.5 per cent *ad valorem* and on two-wheeler and three-wheeler motor vehicles from 9 per cent to 12½ per cent *ad valorem* (tyres, tubes and batteries supplied as original equipment in 2-wheeler and 3-wheeler motor vehicles have been exempted from the duty. The net increase in the duty on

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these vehicles, thus, is about 2.25 per cent);

(8) including the unpasteurised butter in the excise net by expanding the tariff description of food products if the production of this butter by a manufacturer exceeds 50 kgs per day; and

(9) doubling of the levy on electric fans from five to 10 per cent *ad valorem*.

In the case of the new items brought into the excise net, one per cent general levy was already being collected. The new duty imposed on them at the rate of 10 per cent *ad valorem*, in effect, thus comes to 9 per cent *ad valorem*.

An important change has been made in the collection of the general excise duty on commodities which do not otherwise attract the excise levy under any specified head. It is that henceforward no duty will be charged on the output of a unit, the annual turnover of which does not exceed Rs 30 lakhs. This replaces the existing exemption based on the number of workers employed in such units. All non-power operating units have also been exempted from this levy. In order to minimise the cascading effect of the general excise duty, a set-off is to be given when the output of these units goes into the manufacture of other items which themselves are excisable.

The ceiling rates for the imposition of excise duties on some products, notably manufactured tobacco and steel ingots and products have also been raised. But

since the effective rates of duties on these items have been maintained or changed only marginally, this does not affect revenue receipts any significantly. The enhancement of the ceiling rates enables the government to raise excise levies by notification as and when necessary without approaching parliament.

Mr Patel's proposals in respect of the grant of relief through reduction or abolition of excise duties are aimed at largely benefiting the handloom and powerloom sectors in the textile industry, small farmers, small paper mills, mini steel plants and the registered cooperative societies and the small manufacturers of matches.

For the benefit of the handloom indus-

try, the exemption from excise duty on yarn, which has been available to cotton yarn supplied in straight reel hanks, has been extended to this yarn in cross reel hanks upto 20s counts. The higher counts of cotton yarn in cross reel hanks will be taxed at a lower rate of duty if supplied to the handloom sector, the concession being to the extent of 30 paise per kg. Similar concessions have been provided to the handloom sector in respect of the duty on viscose spun yarn. The powerloom sector has been exempted from the existing compounded excise levy.

Both the handloom and the powerloom sectors have been provided another relief also. The concession available to them at the fabric stage in the form of exemption

from duty if bleaching, dyeing and printing is done without the aid of power, will henceforth be available to all types of processing, including stentering and mercerising if done without the aid of power. The excise duty on crimping yarn has been reduced from Rs 10 to Rs 5 per kg.

The levy on power-driven pumps used for pumping water has been halved from 10 to five per cent and the power-tiller industry exempted from the purview of the general excise duty for the benefit of small farmers.

In the case of small paper mills, the duty on paper produced by them has been lowered, the relief granted being on a graded basis from 75 per cent to 50 per cent of the duty leviable depending on the installed capacity of the mill. This concession has been subjected to the use of non-conventional raw materials such as bagasse, jute stalks, cereal straw, etc., and waste paper to the extent of at least 50 per cent. With a view to encouraging the use of non-conventional raw materials for the manufacture of paper, even the large paper mills using such raw materials to the extent of at least 50 per cent will be charged a concessional excise levy on their products. The relief granted in their case is $33\frac{1}{3}$ per cent of the duty leviable.

The mini steel plants have been provided relief by exempting from excise the identifiable types of fresh melting scrap

cleared from the main steelworks for use as raw material in the mini steel plant.

Electric insulating tapes and sheet angles have been removed from the list of specific items.

Children Favoured

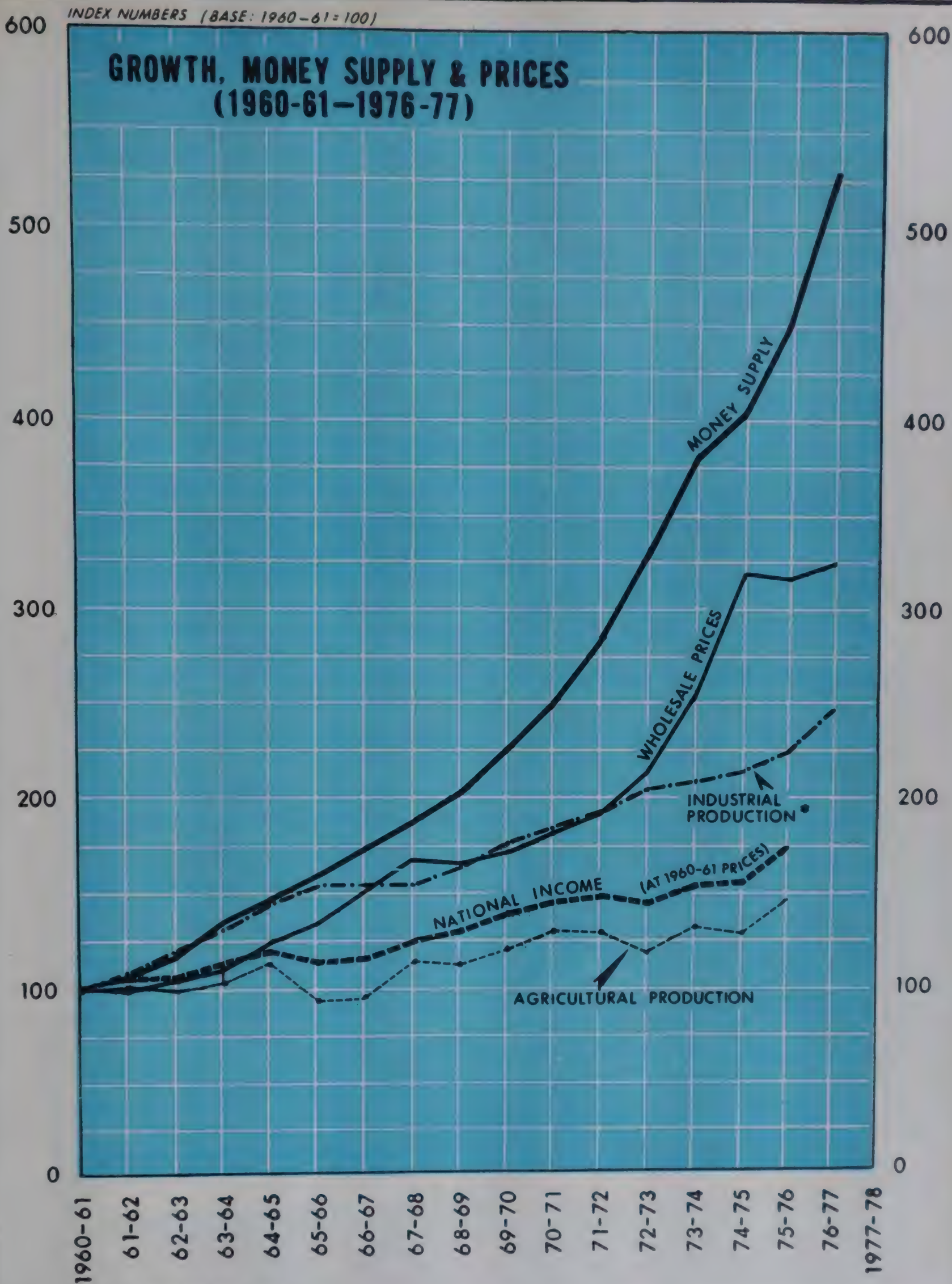
the central tariff. They are therefore, not taxed for excise duty purposes according to the provisions of the two per cent general excise levy. A similar step has been taken in the case of boiled sweets, toffees, caramels, candies, nuts, etc.

The small-scale manufacturers of electronic items too have been provided relief *vis-a-vis* the large-scale manufacturers of these products. The duty on electronic items, which was being levied on a varying basis, some items covered by specific duties and the others by *ad valorem* duties, will henceforward be taxed on a uniform *ad valorem* basis. The large manufacturers producing radios, transistor sets, tape-recorders, tape-recorders-cum-radios, stereos, Hi-Fi musical system will now be charged excise duty varying from 15 per cent to 35 per cent *ad valorem*, depending on the item's ex-factory price. The smaller manufacturers, however, will be charged excise duty on a concessional rate, the concession being 15 per cent *ad valorem*. The corresponding rates of duty on the electronic products manufactured in the small-scale sector will vary from nil to 20 per cent *ad valorem*—hitherto, the small-scale manufacturers of radios and transistor sets were entitled to duty exemption on items up to a price of Rs 225.

The definition of small-scale unit below the above line of manufacture has been modified for duty purposes. As a result those manufacturing units in the small-scale sector which have invested investment on plant and machinery exceeding Rs 10 lakhs and whose total of clearances in the preceding financial year did not exceed Rs 100 lakhs will be entitled to the concessional rates of duty for the first clearances upto Rs 50 lakhs only in a financial year.

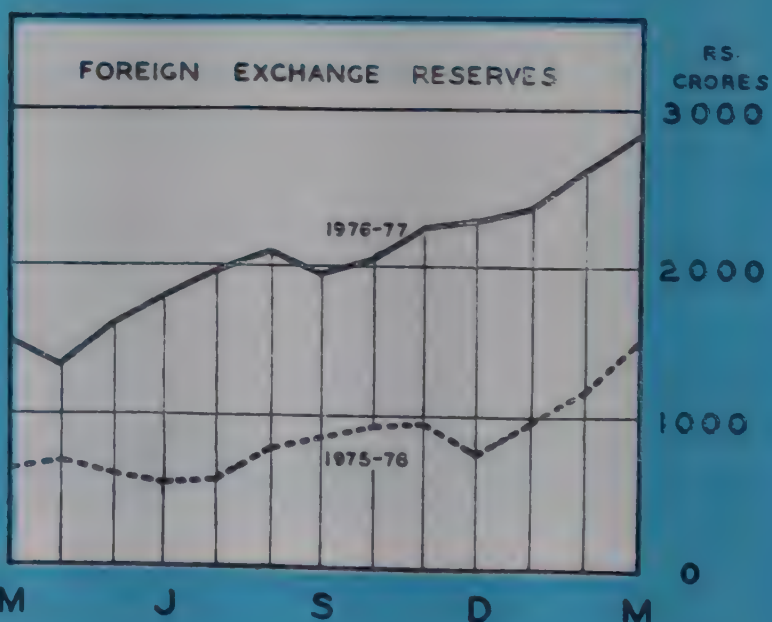
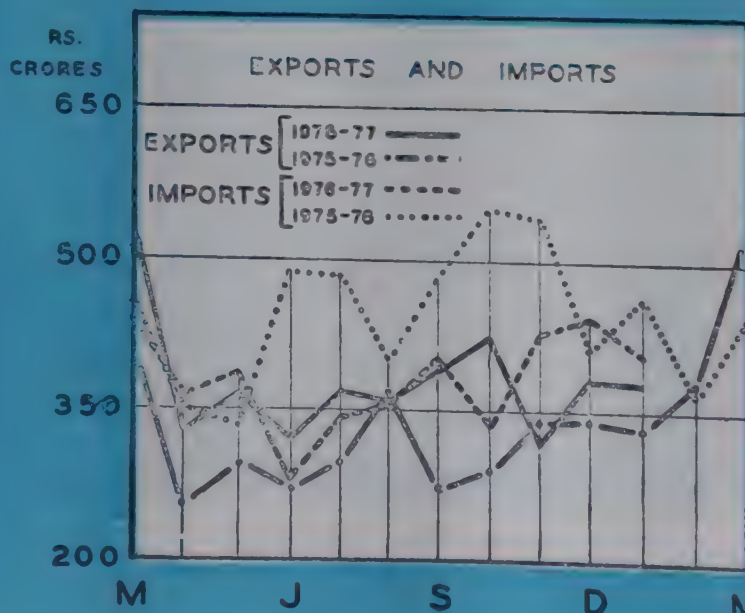
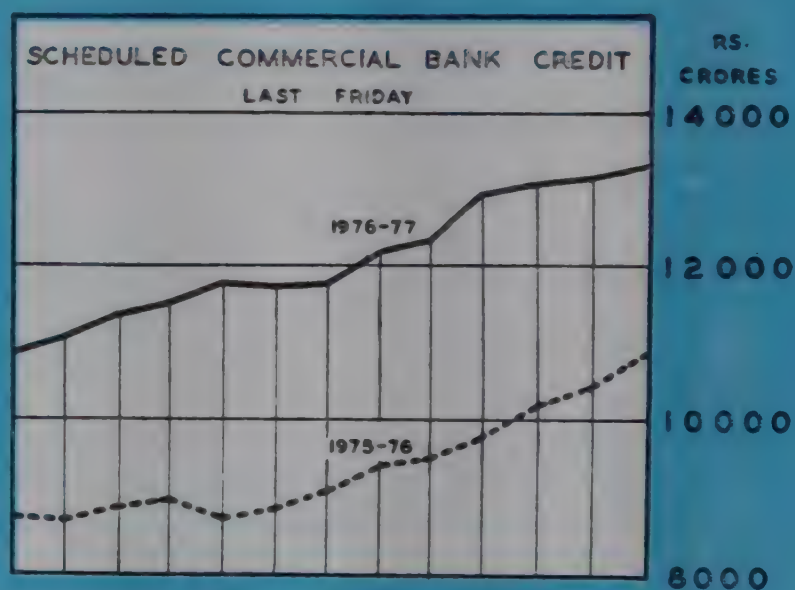
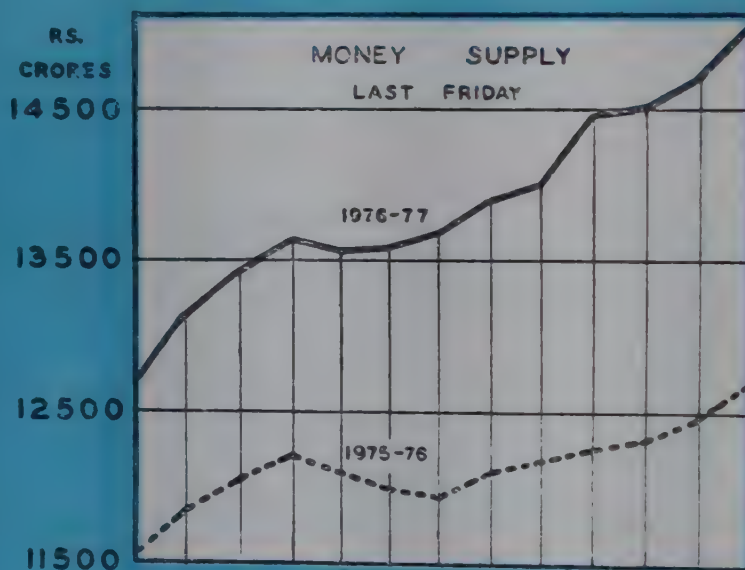
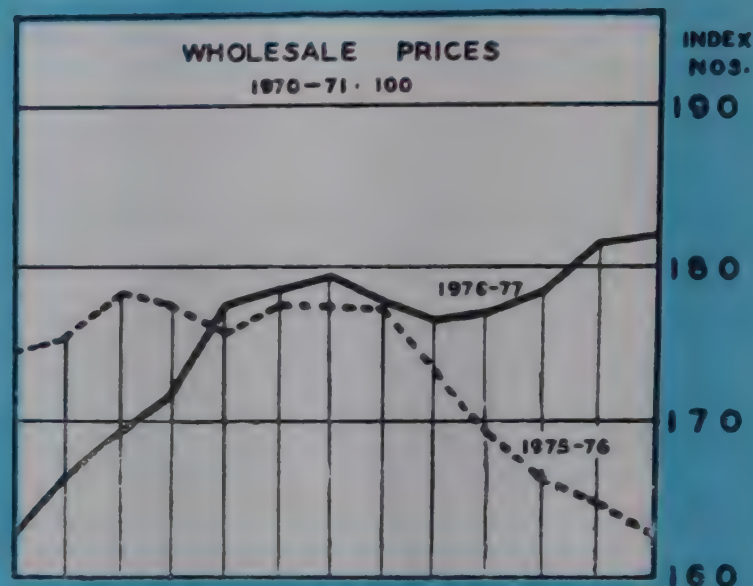
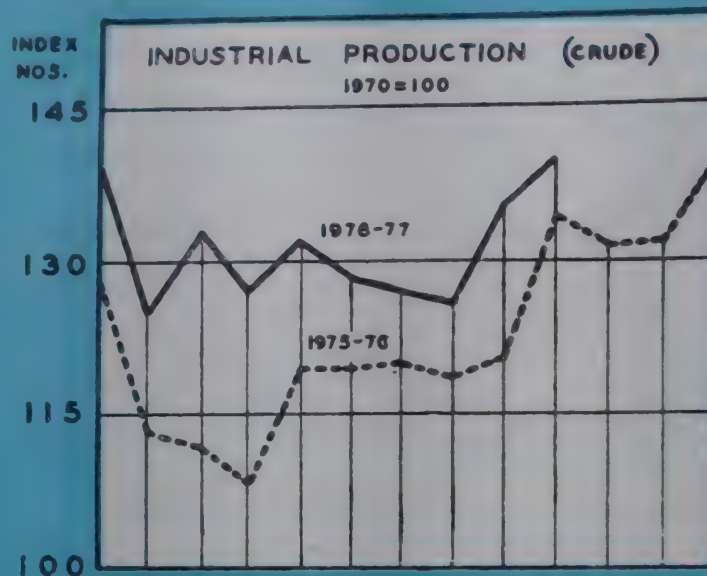
Some changes have been made in the excise levies on television sets, recorders and electronic calculators. They include:

(1) the five per cent concessional



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SELECTED ECONOMIC INDICATORS



on TV sets will henceforth be available only if the ex-factory price of a set a screen exceeding 36 cm is Rs 1,600 less, instead of the existing limit of Rs 800;

(b) the concessional duty on tape-recorders will be available if the ex-factory price does not exceed Rs 500; and

(c) some concession in the duty will be available on calculators if their ex-factory price does not exceed Rs 175. The duty on these calculators has been reduced from 15 per cent to five per cent.

The proposals of the Finance minister to rationalise and simplify the excise structure include:

(i) replacement of the excise duty levied on woollen yarn by an increase in import duty at the stage of import of raw wool, waste wools and rags; in respect of wool tops, the excise duty of Rs 10 per kg has been halved, the loss to revenue resulting from this being made up by raising the import duty on raw wool suitably;

(ii) shift of the incidence of the excise duty of Rs 130 per tonne at the re-rolling stage of bars, rods, angles, etc., to the final-making stage in the main steel plants and the mini steel plants;

(iii) introduction of a new schedule of excise duty on cotton yarn in which the duty rises gradually with each unit increase in the count of yarn—the rates include a duty of 1/2 paise per unit to enable the government to recoup the loss incurred by exempting powerlooms and hand processors from the excise duty. Viscose spun yarn will also be treated for excise duty purposes on the same pattern and rates as cotton yarn;

(iv) adoption of the *ad valorem* system of excise duty at the cotton fabric stage irrespective of the count of the yarn, bringing into the system a high degree of uniformity, replacing the system of *ad valorem* rates adopted last year depending on the count of the yarn used in the fabric;

(v) exemption from excise at the fabric stage of the cloth produced by powerlooms which is sold as grey or is processed by hand processors; if, however, this is processed by independent power-operated

processors, it will attract a duty at the rate of 15 per cent of the composite yarn and fabric rate paid by the mill fabrics.

Another major reform proposed by the Finance minister relates to the nomenclature and classification of textile yarn and fabrics. Henceforward, yarn or fabrics would ordinarily be classified on the basis of the fibre which predominates by weight.

Since the auxiliary duties of excise have become shareable with the state governments in terms of

Separate Entity Finished

of the sixth Finance Commission on the pattern of the basic duties of excise, their separate entity has been done away with. They have been merged with the basic duties. The combined duties have been fixed by and large in such a way that the original incidence remains unchanged. In the case of tobacco manufactures, some minor increase in the burden, of course, is there owing to the additional excise duty levied on the basic rate in lieu of sales tax. A marginal increase has also been effected in the duty on those varieties of cement the prices of which are not controlled after the amalgamation of the earlier basic and auxiliary levies, the increase being from 38.5 per cent to 40 per cent *ad valorem*. In the case of aluminium, where also the earlier basic and auxiliary levies have been merged, some increase is there in the incidence of duty due to rounding off from 9.6 to 10 per cent *ad valorem* for aluminium sheets intended for use in electrolysis process. The shapes and sections of aluminium not otherwise specified too have been brought into the excise net as a result of widening the description of manufactures. The combined duty on latex foam sponge, however, has been reduced from 72 per cent to 50 per cent *ad valorem*.

Some changes in the excise levies have been made by Mr Patel by notification. Apart from the tyres, tubes and batteries used as original equipment in two-wheeled and three-wheeled motor vehicles, power driven pumps, electronic calculating machines, matches, wool tops on which the incidence of the duty has been brought down in terms of the objectives referred to earlier in this piece (to help the small-

scale sector and agricultural operations of small farmers, etc), the duty has been reduced on water coolers from 40 per cent to 20 per cent *ad valorem* and abolished on solvent extracted processed groundnut oil, copra oil and kardi seed oil (subject to existing conditions). The consideration in the case of water coolers is that they are generally used to provide clean and cool drinking water in educational institutions, hospitals, factories, railway stations, etc. The latter step has been taken due to the fact that these edible oils are generally consumed by the poor and the lower middle sections of society. The duty on perfumed hair oil has been raised through notification from 18 per cent (basic plus auxiliary) to 20 per cent *ad valorem*.

The combined effect of changes in the excise duty structure is that whereas the increases in levies or imposition of new duties will bring in Rs 153.6 crores in a full year, the reliefs granted will aggregate to loss of revenue to the order of Rs 80 crores. The net addition to revenue

Addition to Revenue

(including the revenue from the additional excise duty in lieu of sales tax) would be Rs 73.6 crores in a full year—slightly over Rs 67 crores from the basic duties and the remainder from the additional duty in lieu of sales tax. This will be shared by the centre and the states to the orders of Rs 53.8 crores and Rs 19.8 crores, respectively. The accruals to the centre this year will be Rs 42.3 crores and to the states Rs 15.6 crores.

As has been the case with the changes affected in customs duties, the modifications proposed by Mr Patel in the excise levies by and large are quite judicious. The reliefs granted to the small paper mills, mini steel plants, registered co-operative societies and small producers of matches and the handloom and powerloom sectors in the textile industry are well thought out. While the small paper manufacturing units and the mini steel plants deserved reliefs owing to the serious difficulties they have been facing in the recent past, the small units in the match industry have been finding it difficult to compete successfully with the bigger units. It, however, remains to be seen whether the relief provided to the mini steel plants

would be enough to put them again on a sound footing.

The reliefs provided to the handloom and powerloom sectors are primarily aimed at fostering their growth and consequently helping in generating additional employment in the countryside. The equating of the two sectors, however, may affect adversely to some extent the handloom sector.

It, of course, is encouraging to note that due recognition has been given to the increasing use of man-made fibres in these sectors. It should augur well for the multi-fibre approach to our textile industry in view of the difficulties being faced on the raw cotton front. The change in the nomenclature and classification of yarns and fabrics on the basis of the predominance of a fibre by weight should remove many working difficulties and at the same time help in containing the prices of mixed fabrics, especially in the lower ranges.

The changes effected in the definitions of the small-scale manufacturing units for the purposes of excise duties too are

more rational compared to the definitions adopted hitherto, although the small manufacturers in the radio line have expressed misgivings about the accountability burden cast on them. There, of course, can be no denying the fact that the working of the small-scale sector has to be rationalised a great deal, especially when added emphasis has come to be placed on its development.

The increase in the burden of excise duties on the motor vehicles industry perhaps could have been avoided by the Finance minister, because this industry has still to recover fully from the recession that hit it after the hike in petroleum prices in 1973. Though the additional burden imposed on this industry, including the manufacture of two-wheelers and three-wheelers (Rs 6.6 crores), is not high, it can have a psychological impact.

The change effected by the Finance minister in the basis for the levy of excise duty on exposed cinematographic films, aimed at netting an additional revenue of Rs 7 crores, can be expected to pose several practical problems. It is not easy

to judge the value of a film until screened, even though taxation on value basis obviously is a much fairer criterion.

The Finance minister has again tried to take advantage of the weakness of smokers and has pushed up the burden of excise on cigarettes and bidis to no less than Rs 45 crores additional revenue in a year—nearly 70 per cent from 1972-73. The justification provided for this is that smoking is a health hazard and needs to be contained. It is perhaps not fully realised that enhancing the excise duty on tobacco manufactures year after year is pushing up the prices of cigarettes particularly in a marked manner, driving the addicts to greater hazards of smoking inferior varieties.

In the general excise duty, the rate which has been doubled from one per cent to two per cent this year, the Finance minister has found a good source of revenue. Last year the proceeds from this duty were of the order of Rs 37 crores. The doubling of the duty is envisaged to net an additional revenue of Rs 30 crores. This is because with a view to minimising



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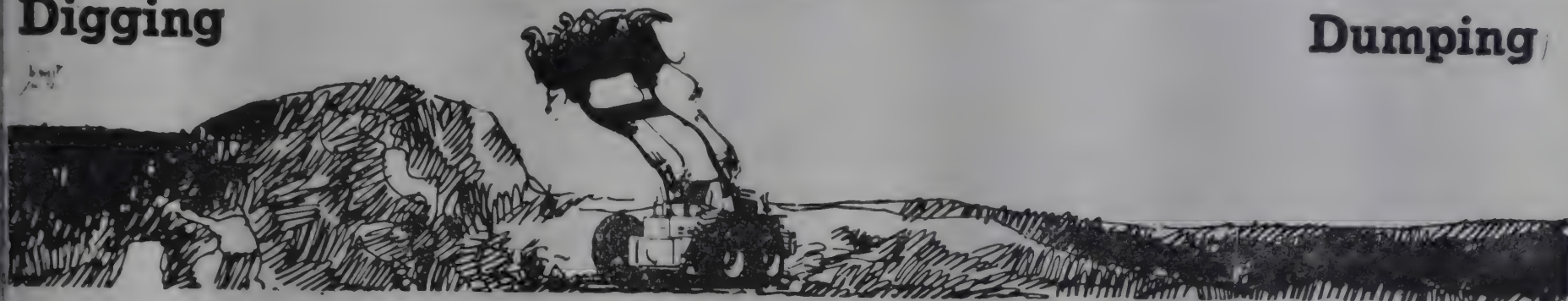
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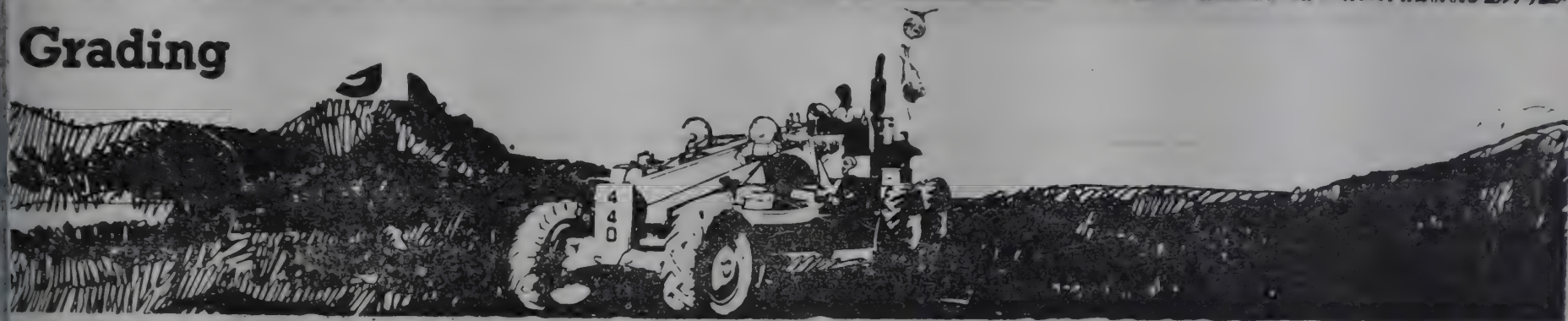


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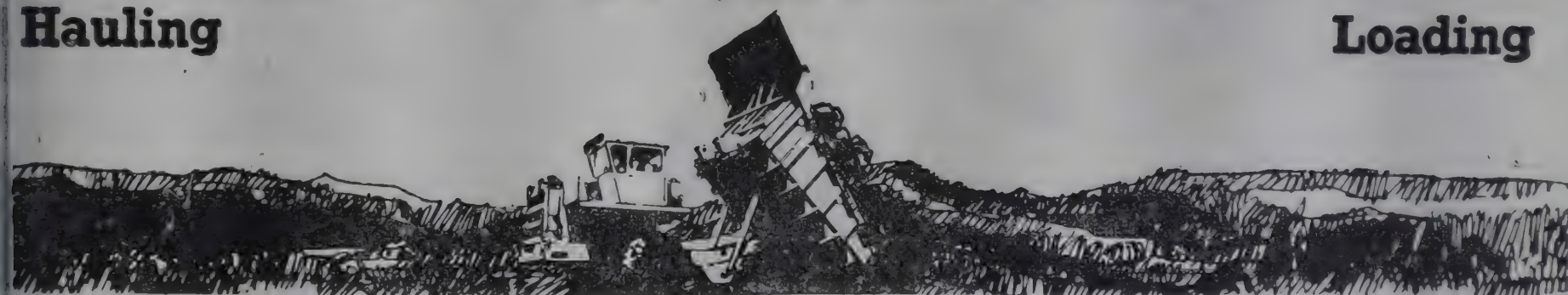


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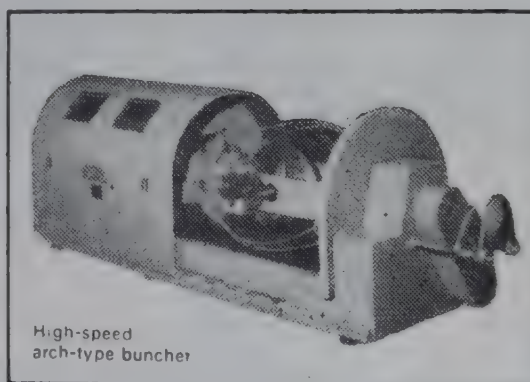
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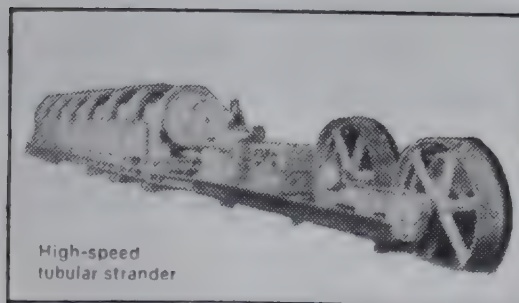
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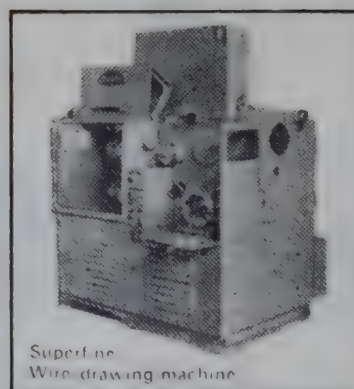
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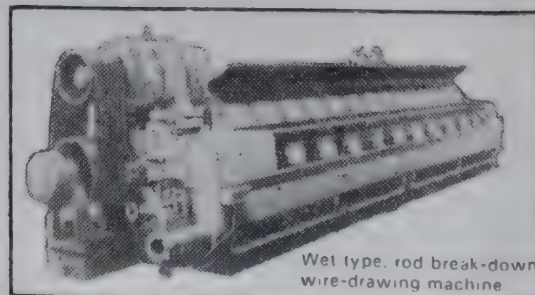
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cascading effect, a set-off is proposed to be given from the duty where these goods go into the manufacture of other goods that are themselves excisable.

It may be recalled that in his report on rationalisation and simplification of tax structure, the former secretary in union ministry of Finance, Mr Bhoothalingam had strongly advocated a few years ago the introduction of this system in order to make the revenue of the Government from excise more elastic than it could have been possible by persisting with excise levies on specific items. During the transition period of five years, of course, he had suggested that some 12 items may be continued to be taxed individually, besides 14 commodities on which separate excise duties could be continued on a long-term basis in the interest of adequate revenue earnings. While the former category included such commodities as woollen textiles (yarn and fabrics), patent and proprietary medicines, synthetic and organic dye-stuffs, cosmetics, soap, paints and varnishes, aluminium, copper and copper alloys, refrigerators and airconditioners, batteries, electric wires and cables and electric motors, the latter included tea, coffee, manufactured tobacco, sugar, mineral waters and their products, cotton textiles (yarn and fabrics), rayon (yarn and fabrics), cigarettes, matches, iron and steel, motor vehicles, tyres and tubes, cement and paper.

Modest beginnings can be said to have been made by the Finance minister in regard to switch-over to the general excise duty from duty on specified items. A small number of items such as boiled sweets and bottled angles have been removed from the specific excise duty and put on the list of items chargeable to the general excise levy. The Finance minister, obviously, could not be bold enough to switch over to general excise duty in more cases as the rate at which this duty is being imposed even after enhancement is much lower than the rate of 10 per cent commended by Mr Bhoothalingam.

Incidentally, the proceeds of the general excise duty has enabled the Finance minister to search out five new items on which

ad valorem duty of 10 per cent has been put. As mentioned earlier, these include polishes, watches, weighing machines, hand tools and electric light fittings.

Mention here, of course, needs to be made to the fact that the state sale tax is also generally levied on excisable commodities. In the future revisions of the general excise duty, this factor ought to be kept in view.

The Finance minister, of course, has not taken any step to extend the list of commodities on which additional excise duties are levied in lieu of sales tax, although the Janata Party's manifesto desired this to be done. This is presumably due to the fact that state governments could not be consulted on the matter in the short period available to

Obviating Leakage

Mr Patel for presenting this year's budget after assuming the charge of his office. Moreover, several states did not have elected governments. The substitution of sales tax by additional excise duty has the merit of obviating leakage of revenue. But the state governments have been averse to extending the list of commodities on which sales tax has been substituted by additional excise levies beyond the three items of textiles (cotton, woollen, rayon and artificial silk), sugar and tobacco for that takes away from their hands a powerful lever of augmenting their revenues.

The impact of the indirect taxation proposals of Mr Patel on the price level

generally cannot be expected to be adverse, as he has taken good care to avoid steep increases in individual indirect taxes. In many cases, he has even provided useful reliefs.

The likely increase in the deficit from Rs 72 crores envisaged by the Finance minister to about

Increase in Deficit

Rs 100 crores too may not affect the price structure in any

material way. The increase in deficit can be expected on account of likely reduction in the export duty on coffee in the near future in view of the softening of the prices of this beverage in the world market and the curtailment of tea exports from 240 million kgs last to 225 million kgs this year, as announced by the minister for Commerce, Mr Mohan Dharja.

It is difficult to judge the impact on the price level of the Rs 800 crores borrowings by the government against drawals from foreign exchange reserves. It depends on how these borrowings are utilised and how far the availability of goods of mass consumption in the domestic market is augmented through increases in production, curtailing of exports (particularly when the export earnings from an item are not very significant) and liberalising of imports. The comfortable foodgrains supply position, of course, should augur well for the containment of the prices spiral.

—R. C. Ummat

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Budget and the Plan

BUDGETARY support for the central for 1977-78 has been raised to 978 crores as against Rs 3,347 crores in 1976-77. The central Plan is also supported by extra budgetary resources including surplus generated by public undertakings, amounting to 1 crores. The provision for the central Plan, therefore, has been placed at 939 crores. Taking into account the assistance for state and union territories plans of Rs 1,812 crores, the total outlay for the central Plan in the year comes to Rs 5,790 crores as against 4,759 crores a year before.

The state and union territories plans for 1977-78 together will be of the order of Rs 5,021 crores, as against Rs 3,762 crores in 1976-77, so that the total outlay for the annual Plans of the centre, states and union territories for 1977-78 will be Rs 9,660 crores, as against Rs 7,852 crores in 1976-77, representing an increase of 23 per cent.

The details of the proposed central Plan for 1977-78 provided in a publication released along with other budget papers, reveal that budgetary support for agricultural and allied services is proposed to be raised for 1977-78 to Rs 491 crores, besides Rs 26 crores for agricultural credit cooperatives and Rs 8 crores for the integrated rural development programme, against a revised estimate for 1976-77 of Rs 335 crores. Substantial increase can also be observed in the field of village and small industries from Rs 41.15 crores to Rs 83.20 crores, extending the accent of the present government programmes for rural development.

Outlay has also been increased for the development of consumer industries from Rs 85.36 crores during 1976-77 to Rs 100.14 crores during 1977-78, keeping in view the inconvenience that could be caused to the common man due to the shortage of consumer goods. The Finance minister also justified in

his speech the high priority the Janata government has accorded to irrigation, which holds the key to increased agricultural production. Though the fifth Plan envisaged a target of 5.8 million hectares of land to be brought under irrigation, the financial outlays did not match the target. Moreover, the need for initiating action in the current Plan on new irrigation projects has been felt so as to have an adequate number of projects in the pipeline. Greater emphasis is also being laid on modernisation of irrigation projects so as to conserve water. Keeping all these ends in view, it has been proposed to provide Rs 100 crores advance Plan assistance to states for irrigation projects.

The Plan outlay for minor irrigation is to be supplemented to the extent of about

Minor Irrigation

Rs 260 crores from the Agricultural Refinance and Development Corporation, and other lending institutions. Provision has also been made for the development of ground water resources by the Central Ground Water Board. Under the programme of rural electrification for energising the pump sets, a provision of Rs 175 crores has been made which will also be augmented to a significant extent by institutional finance.

Power is another area where high priority has been given. A sum of Rs 234 crores has been provided in the central Plan for power development for 1977-78, which includes Rs 33 crores for Singrauli Super Thermal Station, Rs 17 crores for inter-state transmission lines, and Rs 52 crores for nuclear power projects. The state and union territories plans, which account for the bulk of the provision for power, envisage an outlay of Rs 1,676 crores. An additional sum of Rs 20 crores is being provided to the Rural Electrification Corporation for systems improvement and for providing IT capacitors for rural consumers, both designed to minimise loss of energy.

In an effort to achieve self-sufficiency in energy, the provision in the Plan for petroleum has been stepped up from Rs 485 crores in 1976-77 to Rs 677 crores in 1977-78. Of this Rs 451 crores will be provided to the Oil and Natural Gas Commission for its on-shore exploration programme and for accelerating the pace of off-shore exploration, especially at the Bombay High. Indigenous production of crude oil is expected to reach 11.31 million tonnes in 1977-78 as compared with 8.89 million tonnes in 1976-77.

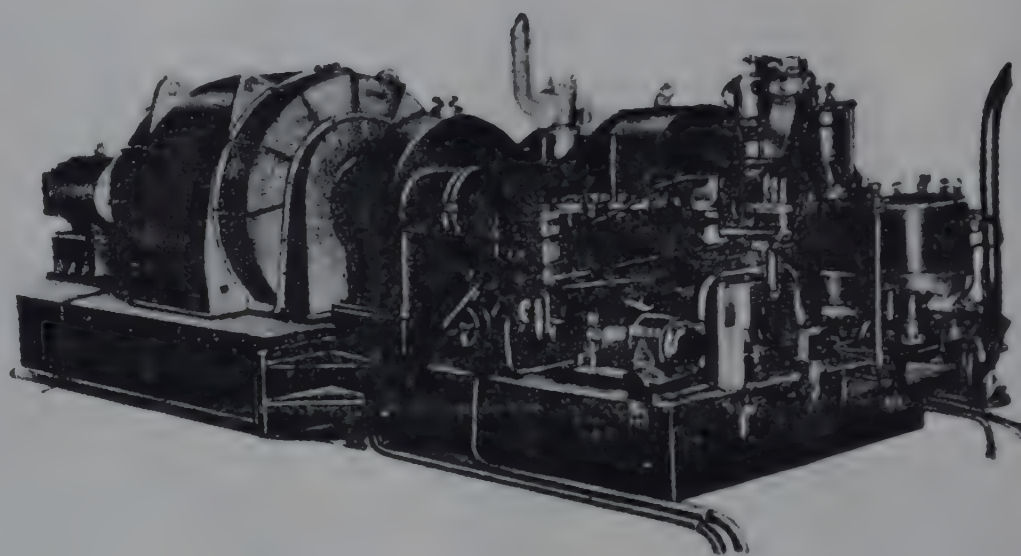
Towards Self-sufficiency

The government has not neglected steel. After taking into account the feasibility of rephasing the expansion programmes of the Bhilai and Bokaro complexes, a budgetary allocation of Rs 511 crores has been made for steel as compared with Rs 402 crores in 1976-77.

There has, however, been a positive cut in the proposed expenditure on family welfare programme, which has been reduced to Rs 98.61 crores after it has been dissociated from the family planning programme of 1976-77, which has been estimated to have cost Rs 149.26 crores. Another significant cut has been in respect of petrochemical industry, where the provision has been reduced from Rs 110.15 crores during the year 1976-77 to Rs 86.73 crores during 1977-78. Similarly the proposed outlay on fertilizers has been reduced to Rs 305.85 crores during 1977-78 as against Rs 471.58 crores during 1976-77. There has been a reduction in the field of non-ferrous metal and atomic energy development from Rs 87.41 crores and Rs 42.91 crores to Rs 61.07 crores and Rs 35.41 crores respectively.

The reason for reduced expenditure on family welfare programme seems to be more political than economic, because this programme had become controversial during the emergency and was the reason for many excesses being perpetrated on so many innocent people. Yet the

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significance of the programme should not be minimised. If the target fixed for the fifth five-year Plan to bring down the birth rate to 30 per thousand by the end of 1978-79 from the level of 35 at the end of the fourth Plan is to be achieved, the pattern of the programme should have been changed instead of reducing the financial provision. For achieving this objective, it is necessary to increase the number of couples protected against conception to 40 million by the end of the fifth Plan. During 1977-78, it is proposed to protect ten million couples by one or the other method of contraception. Greater emphasis is to be laid on maternal and child health and nutrition, to make the programme more acceptable to general masses.

The year 1977-78 being the fourth year of the fifth Plan, it would be appropriate to assess some of the important programmes of the annual Plan in the light of the performance during the previous three years. In the field of agriculture, for instance, a target of foodgrains output of 128 mil-

lion tonnes during 1978-79 has been proposed. In view of the fact that an output of 121 million tonnes was achieved during 1975-76, though under highly favourable conditions, the target of 128 million tonnes for 1978-79 does not appear beyond achievement. For this, important programme such as extension of minor irrigation, use of high-yielding varieties of seeds, and distribution of fertilizers have special significance and necessary provisions have been made for these programmes.

The area under high-yielding varieties, which jumped from 26 million hectares in 1974-75 to nearly 31 million hectares in 1975-76, is likely to increase further. Particularly notable has been the expansion of nearly two million hectares in the area under high-yielding varieties of rice. The outlays for reclamation of alkaline, saline and acidic soils and plant protection programmes have also been suitably enhanced.

During the first three years of the fifth

Plan, the expenditure on major and medium irrigation projects has been estimated at Rs 1474 crores. For the remaining two years of the Plan on outlay of Rs 1621 crores has been indicated keeping in view the progress achieved on each project, new completion schedules, development of additional command areas and escalation in costs. Where work could be accelerated, higher outlays have been provided for projects such as Nagarjunasagar, Sardar Sahayak, Rajasthan Canal, Malaprabha and Kadana. In selecting new projects, priority has been accorded to those located in drought prone areas. Special significance has been attached to irrigation efforts because it would provide additional employment in rural areas both when construction would be undertaken and later on when the agricultural potential would improve.

While finalising the fifth Plan for power, emphasis had been placed on the completion of on-going schemes as expeditiously as possible. In recommending outlays, the latest cost of each generation

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ject, progress of major items of works, very schedules for the equipment and constraints likely to be faced in implementation were all taken into account. During the first three years 5900 MW of installed capacity in power generation was added and the remaining two years are likely to take the total generated capacity created during the entire fifth plan to 12,500 MW.

In fact advance action for the sixth plan is also being taken. Special attention is being paid towards ensuring that regional grids are strengthened, that there is a balanced development peaking and base load stations in each region. With these considerations in mind, provision has been made for a number of new starts in the thermal and hydel projects. As most of the expenditure is the responsibility of the states, their views are taken note of, particularly in regard to aspects such as readiness of projects, construction periods and escalation in costs. Many states expressed their willingness to raise additional resources to meet requirements of new power projects.

Industrial projects and programmes in the central sector of the fifth Plan involve an outlay of Rs 9,660 crores, out of which a major share has been claimed by steel (Rs 1,675 crores), fertilizers (1,533 crores), exploration (Rs 1,575 crores), coal (Rs 1,147 crores), iron ore (Rs 513 crores), non-ferrous metals (Rs 468 crores) and petrochemicals (Rs 349 crores).

In the field of oil exploration the programme is being stepped up at Bombay High, where a time-bound scheme has been drawn up to develop production of 10 million tonnes of crude annually by 1980-81. In view of this enlarged programme, the outlay of ONGC during the fifth Plan has been revised to Rs 1,056 crores against Rs 420 crores in the draft plan. During 1977-78, out of the outlay of Rs 450.94 crores fixed for ONGC, an amount of Rs 344.00 crores will be for offshore programme, including foreign participation contracts.

In the field of oil refining the Plan programme included the completion of Haldia refinery, the expansion of Gujarat refinery

and the establishment of refineries at Mathura and Bongaigaon. The Plan outlay for 1977-78 for Indian Oil Corporation is Rs 96.00 crores, which includes Rs 31.00 crores for Mathura refinery, Rs 42.50 crores for Salaya-Koyali-Mathura pipeline, and Rs 10.00 crores for Gujarat refinery expansion. For Bongaigaon refinery and Petrochemicals Ltd, the outlay approved is Rs 18.17 crores out of which an amount of Rs 8.00 crores is meant for the captive power plant and Rs 2.00 crores each for kerosene treating unit and coke and coal calcination unit.

The installed capacity for nitrogenous fertilizers was expected to reach 4.7 million tonnes by 1978-79, though actual output may be around 2.9 million tonnes only, because a part of the capacity is expected to be realised only in the last year of the Plan. The provision for the entire fifth Plan had been revised upwards to Rs 1,533 crores against Rs 1,093 crores provided in the draft Plan. A large part of the provision for 1977-78 is for meeting the expenditure on the continuing schemes of the Fertilizer Corporation of India, (Rs 208.55 crores),

Accent on Fertilizers the National Fertilizers Limited (Rs 80 crores) and Fertilizers & Chemicals (Travancore) Limited (Rs 14.73 crores). The provision also includes Rs one crore towards starting of two new fertilizer plants in the public sector in 1977-78. However, the location, capacity and feedstock of these plants are yet to be determined and, therefore, only a token provision of Rs one crore has been made in the budget.

The domestic demand for finished steel by 1978-79 has been estimated at 7.75 million tonnes and the output in that year is expected at 8.8 million tonnes. This shows the extent to which the country has become an exporter of steel, against the import of a few categories of special steels. Special attention is being given to the expansion of Bokaro and Bhilai steel plants. An outlay of Rs 138.15 crores has been provided for Bokaro steel plant—Stage I (Rs 27.25 crores), Stage II (Rs 108 crores) and the balance for Bharat Refractories. Bokaro—Stage I, with a capacity for the production of 1.7 million tonnes of ingots per annum has

been practically completed except for the blast furnace No. 3 which is expected to be ready in a few months. Bokaro Stage II (expansion of capacity to 4 million tonnes) is expected to be completed by June, 1979, except cold rolling mill complex which is expected to be commissioned by February, 1982. As against the actual production of 956,000 tonnes of steel ingots in 1976-77, the production target for 1977-78 is 1.4 million tonnes.

Out of the total provision of Rs 144.43 crores for Bhilai Ispat Limited, Rs 117 crores are for four million tonnes expansion scheduled to be completed by December, 1981. The rest of the provision is for second sintering plant and mechanisation of Dalli mines. The other important provisions are assistance to IISCO (Rs 25.91 crores), HSCL (Rs 2.49 crores), Salem Steel Ltd. (Rs 3 crores), Mahanadi Reservoir Project (Rs 3 crores), second pelletisation plant at Goa (Rs 1.27 crores) and Rs one crore each for Vijaynagar and Visakhapatnam steel plants.

Bhilai's Expansion

If the central Plan outlay has been substantially stepped up during 1977-78 as against the outlay in 1976-77. The state plans also show a similar boldness, in an attempt to complete the ongoing programmes before the end of the fifth Plan. In case of Maharashtra state for instance, the proposed outlay of Rs 620 crores for the annual Plan 1977-78 worked out to 51.4 per cent of the balance of Rs 1208 crores available for the last two years of the Plan. The proposed outlay is also nearly 33 per cent more than the approved outlay of 1976-77. The proposed outlay of Rs 358 crores in case of Andhra Pradesh is nearly 53 per cent of the two years' outlay (1977-79) of Rs 674 crores and represents 34 per cent rise over the proposed outlay during 1976-77. In Tamil Nadu again, the proposed outlay of Rs 261 crores for 1977-78 is nearly 21 per cent more than the proposed outlay during 1976-77.

It may be pointed out that state plans for 1977-78, as in case of earlier years, are dominated by the provision for irrigation and power, though some states have proposed to give special attention to

certain projects particularly suited to their economy. For instance, Maharashtra state has proposed an outlay of Rs 50 crores for the irrigation schemes in 1977-78 out of which Rs 16.6 crores are expected to be utilised for the labour intensive component of major irrigation projects. Out of the remaining Rs 33.4 crores, Rs 16.46 crores have been provided in the district plans on the basis of the proposals of District Planning and Development Council. The schemes are kept under constant review with a view to determining their usefulness and validity and improvement in the organisation.

In Uttar Pradesh also major and medium irrigation claims a large share

of Rs 152.25 crores as against the anticipated expenditure of Rs 111.60 crores during 1976-77. The state government has proposed outlays for Kosi irrigation project and Tehri dam under continuing schemes. For power the state government has proposed an outlay of Rs 274.20 crores for 1977-78 as against an anticipated expenditure of Rs 231 crores during 1976-77. There is also an increase in the outlays for large industries for 1977-78 as compared to 1976-77, attributed to the provision of outlays for NOIDA, Jagdishpur Industrial Project and Auto Tractors, Pratapgarh.

In Himachal Pradesh agriculture and allied services claim substantial outlay

during 1977-78 in terms of requirements for programmes such as the World Bank assisted apple processing and marketing project and requirements on account of payment of import duty and price subsidies for fertiliser to be imported under Indo-German project. The Giri project has assumed importance in the state as a multi-purpose unit. The cost estimate of the Giri hydel project have escalated to Rs 26.76 crores from the earlier estimate of Rs 25.21 crores. On enquiry it was revealed that the generation per unit may be around 10 paise, reckoning all items of cost, which should be quite satisfying to the state.

—Hardev Singh

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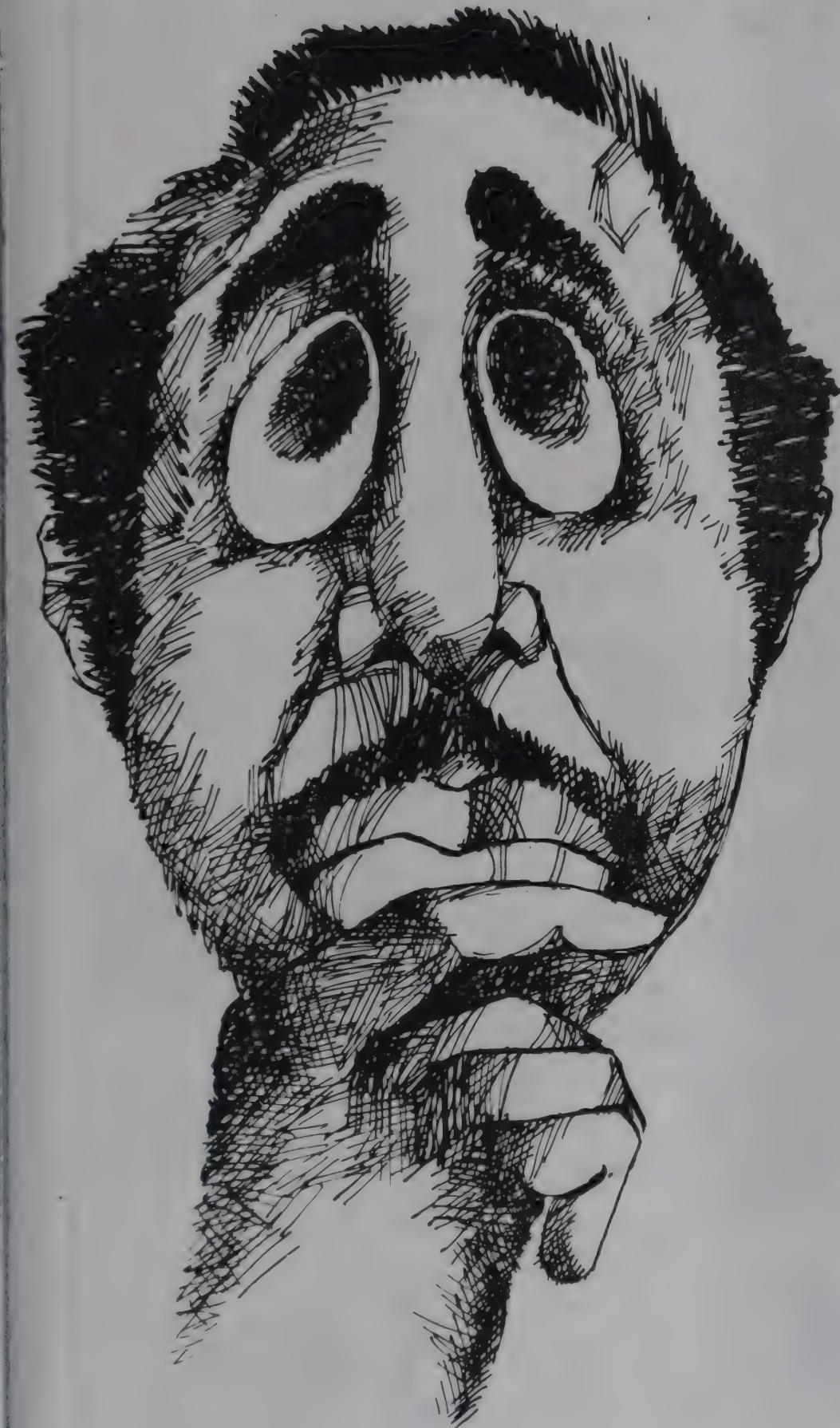
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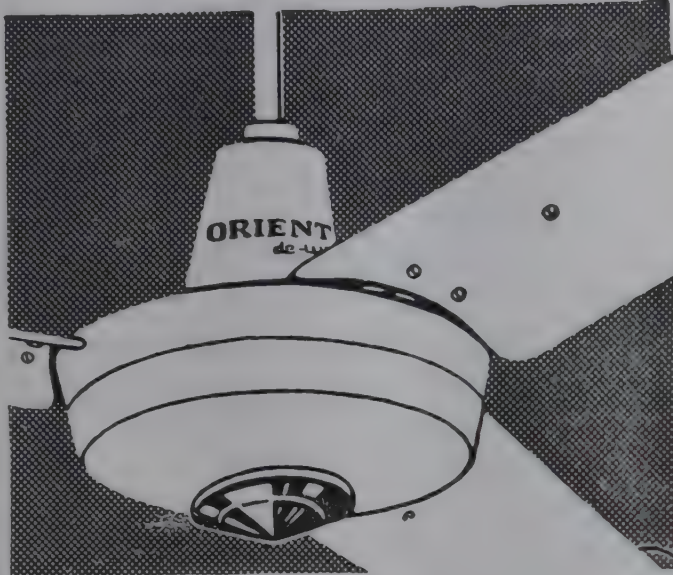
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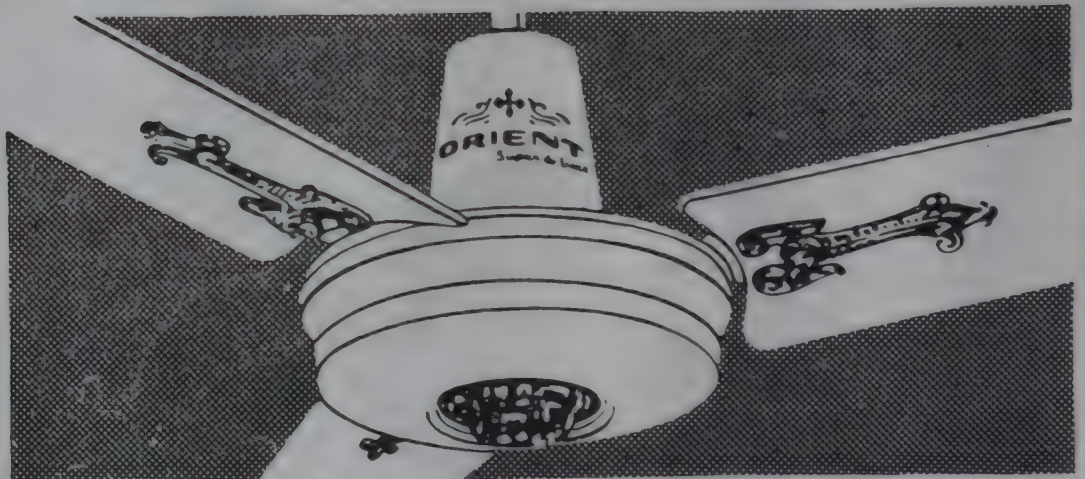
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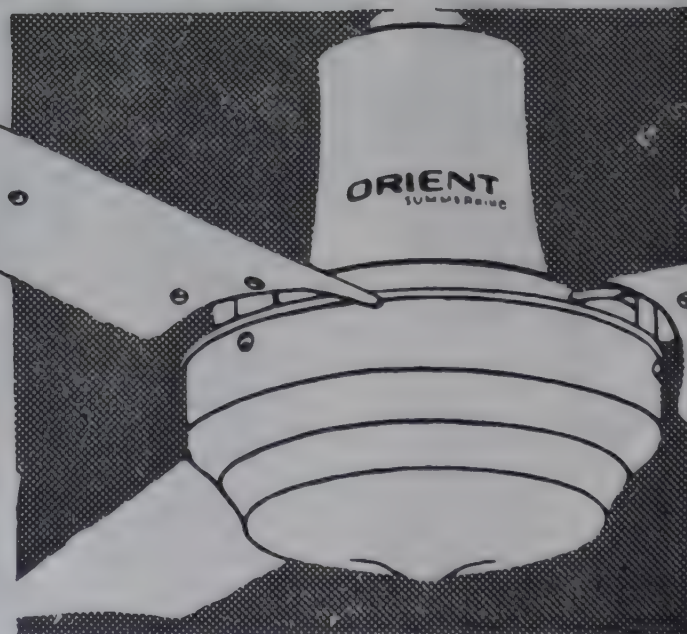


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Halting economic growth

Presenting the first Janata budget for 1977-78 to parliament on June 17, 1977, the Finance minister, Mr H. M. Patel, said that the fundamental problem of this country's economy continued to be its inadequate rate of economic growth. He further said that in 1976-77, the rate of growth of our economy was less than two per cent and since the beginning of the current decade the growth rate had averaged about 3.5 per cent per annum which was far too short of the Plan targets. He regretted that even after 25 years of planning, this country was unable to sustain an average annual growth rate of five per cent. In the light of this persistent poor performance, a fresh examination of our planning priorities and techniques was called for, he added.

The full text of part 'A' of the budget speech is given below :

USE to present the budget 1977-78, the first budget to be presented by this the Janata government.

he massive mandate that the people of India gave the Janata party in March this year was not just a vote against authoritarianism. It was also a manifestation of our people's desire for a reorientation and reshaping of our economic policies so as to bring about the speedy elimination of poverty and destitution. In the last few years, our government has taken several steps to dismantle the authoritarian and repressive structure erected during the dark days of emergency. It is our firm belief that an open society which we cherish will remain insecure unless we can move forward with courage and sincerity to banish poverty, ignorance and disease from this ancient land of ours. Our party's election manifesto set out a coherent economic strategy, laying emphasis on bread and liberty. We intend to accelerate the pace of economic progress and to distribute its fruits equitably within the framework of democracy and individual freedom. Judged by historical precedents,

this is no doubt a highly challenging task. The House can rest assured that there shall be no weakening of our solemn resolve to work for the fulfilment of promises we have made to our people.

The budget of the central government is a major instrument for shaping the country's social and economic policies. Both because of shortage of time as also because of heavy commitments of expenditure on ongoing projects, it has not been possible for me to recast the entire fiscal structure in line with our declared priorities.

Also, I did not have the benefit of consultations with the Planning Commission, which has been reconstituted only recently. Our party's social and economic programme lays heavy emphasis on rural development, improvement of the lot of Harijans, Adivasis and other downtrodden sections, eradication of unemployment and expansion of social services including slum clearance. Most of the projects in these areas fall in the state Plans. For reasons which are well known to this House, it has not been practicable for me to consult

state governments and to induce them to reorient their development programmes in accordance with our priorities. Nevertheless, within the framework of the rather limited options open to me, I have endeavoured so to formulate my budget proposals that they reflect faithfully the philosophy, programmes and priorities of our election manifesto.

economic prospect

Before I outline the broad strategy that has been adopted, I would like to share with the House my thoughts on the current state and prospects of our economy. The Economic Survey has covered this ground fairly extensively, and I shall therefore be brief in my remarks on this subject.

The most fundamental problem of the Indian economy continues to be its inadequate rate of economic growth. In 1976-77, the rate of our economic growth was less than two per cent. In the seventies thus far, our growth rate has averaged about 3.5 per cent per annum, far too short of our Plan targets. And yet, while it would be wrong to assert that our country has not made

significant progress since independence, the fact remains that even after twentyfive years of planning, we are unable to sustain an average growth rate of five per cent. Clearly, a fresh examination of our planning priorities and techniques is called for.

Another disturbing feature of the economic situation is the uneven distribution of growth, which has accentuated regional disparities in the level of development. While a number of states have recorded impressive growth rates during the last fifteen years, it is also a fact and a matter for serious concern that in this very period, nearly one-third of districts have recorded virtually no growth, or negative rates of growth, in output. The poor performance of these districts has both depressed the national growth rate and also led to a widening of disparities in the level of development, a phenomenon which has disturbing implications for the successful functioning of our federal polity.

growing poverty

A significant consequence of low and unevenly distributed growth has been that the proportion of people living below the poverty line is today higher than it was in 1960-61. The available data show that this proportion had tended to decline from 1968-69 to 1973-74, but in all probability the situation has deteriorated since then. The magnitude of the problem can be assessed from the fact

that in 1975-76, the economy did not have the capacity to absorb the production of even 120 million tonnes of foodgrains. The low level of purchasing power is a reflection of the chronic state of underemployment and unemployment which is faced by large numbers of landless workers and small and marginal farmers. The fact that the proportion of people living below the Poverty line today is higher than in 1960-61 strengthens me in my belief that there is need for a fundamental change in our economic policies and programmes. The *status quo* has disastrous implications for our future and our people are rightly clamouring for a re-direction of our policies. To this task, this government is fully committed.

rising prices

Rising prices have further accentuated the hardships faced by the common man. As the House knows, the wholesale price index went up by nearly 12 per cent in 1976-77. This was due, in a large measure, to an excessive increase in money supply last year, the

lagged effects of which are still operating in the economy. Although we have inherited a difficult price situation caused by distortions introduced in 1976-77, we are determined to bring the situation fully under control. We have both the will as well as the necessary instruments to stabilise prices at a reasonable level.

farming sector

It is a truism that in a country in which agriculture accounts for nearly 50 per cent of national income, the overall growth rate of the economy is crucially linked to the performance of the agricultural sector. The poor performance of the economy in 1976-77 was largely because of the decline in our agricultural production.

In the late sixties, Indian agriculture did exhibit signs of a new dynamism. Unfortunately, the modernising impulses made only a limited impact on our agrarian economy. This is evident from the fact that the rate of growth of agricultural production in the 1970s was not higher than in the 1960s. Wheat is the only crop in respect of which there has

been a rapid increase in production, but even there, the rate of growth of productivity has greatly slackened in recent years. In the case of rice, there have been impressive gains in non-traditional states, but in major rice growing states there has been no breakthrough in yields. Crops like pulses, vegetable oilseeds and raw cotton show a stagnant trend. Clearly, we have to introduce some new growth impulses into our agrarian economy, if we are to succeed in raising the agricultural growth rate to a minimum level of four per cent per annum.

stress on industry

Our development plans had hitherto deliberately laid emphasis on industrialisation. And we have also made significant progress in diversifying our industrial structure. Yet, judging by the fact that industrial growth rate since 1965 has averaged only four per cent as compared with the average annual growth rate of eight per cent from 1956 to 1964, the decade since 1965 can hardly be described as a decade of progress in industrialisation.

That an increasing emphasis on industrialisation should have coincided with a decline in the rate of industrial growth is a phenomenon which calls for careful examination. In 1977, industrial growth rate increased to 10 per cent. However, there is ample evidence to suggest that this was due to a number of fortuitous circumstances so that the favourable results of 1976-77 cannot be taken as indicative of a more cheerful trend.

unemployment problem

Both because of inadequate growth rate and growing capital intensity of industry, Indian industrial structure has been unable to provide a fast enough expansion of employment opportunities. As a result, the number of unemployed people on the live registers of employment exchanges has risen sharply. A highly capital intensive industrial structure catering to a highly sheltered domestic market must necessarily find it increasingly difficult to expand in the face of the constraint of a limited home market.

In the last two years, wh

Selected Economic Indicators

	1969-70	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77
	(Percentage change over previous year)							
Gross National Product at 1960-61 prices	6.4	5.8*	1.2*	-1.1*	5.4*	0.3*	8.5**	1.5-2.0†
Agricultural production	6.7	7.3	-0.4	-8.0	10.7	-3.5	15.6	-5.0-6.0†
Foodgrains production	5.8	9.0	-3.0	-7.7	7.9	-4.6	21.0	-8.1†
Industrial production††	7.4	3.0	3.3	4.0	2.0	2.8	6.1	10.6£
Electricity generated	14.4	8.4	9.3	6.1	2.8	5.2	13.5	11.6
Wholesale prices££	3.7	5.5	5.6	10.0	20.2	25.2	-1.1	2.0
Money supply	10.8	11.2	13.2	15.9	15.4	6.9	11.3	17.1@
Imports (in current prices)	-17.1	3.3	11.6	2.4	58.3	52.9	16.5	-5.8
Exports (in current prices)	4.1	8.6	4.8	22.5	28.0	31.9	21.4	23.2

*Provisional.

**Quick estimates.

†Anticipated.

††Figures relating to 1969-70 to 1971-72 are derived from 1960 base index and those for subsequent years from 1970 base index.

£April 1976-January 1977 compared to April 1975-January 1976.

££Figures relating to 1969-70 to 1970-71 are derived from 1961-62 base index and those for subsequent years from 1970-71 base index.

@As on March 25, 1977 compared to March 31, 1976.

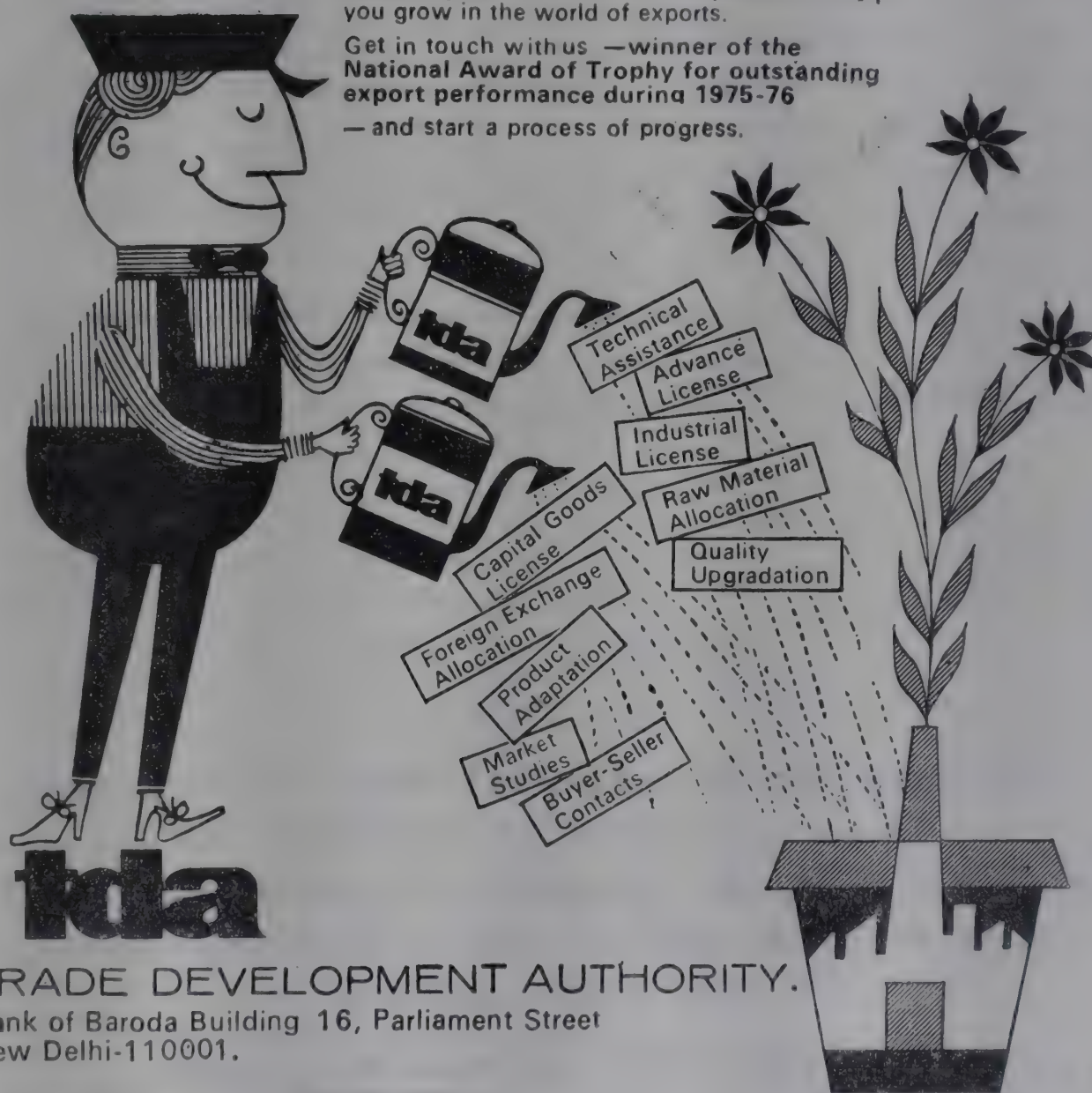
Source : Economic Survey 1976-77

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India's exports have increased rapidly, imports during 1976-77 were restrained both on account of the bumper harvest of 1975-76 and increased domestic production of such critical inputs as fertilisers. The rapid increase in inward remittances has given added strength to India's balance of payments and our reserves have gone up considerably. Nevertheless, we would be foolish if we did not take note of the fact that our balance of payment still remains vulnerable to the effects of sudden shocks, such as harvest fluctuations. The current level of food stocks and foreign exchange reserves do give us wider options in the management of the economy than ever before. Foreign exchange reserves will have to be so deployed as to assist in the maintenance of price stability, as also in accelerating the process of growth.

The task ahead is to devise an effective strategy for dealing with the problems of inadequate growth, crushing poverty, unemployment, growing regional imbalances and rising prices. These are all interrelated problems and have to be tackled simultaneously, though the emphasis laid at any given period of time may vary in degree.

primacy of agriculture

It goes without saying that in any strategy we devise, the primacy of agriculture has to be emphasised. In a country in which nearly 80 per cent of the people live in rural areas, a faster increase in agricultural productivity is almost a precondition of any successful programme for removal of poverty, for enlarging employment opportunities, for stabilising prices of essential goods and for expanding the domestic market for manufactured goods.

The primacy of agriculture implies that investment requirements of agriculture would be given the highest priority. In spite of the importance of agriculture and the repeated avowal of the need to improve the condition of rural India, the rural sector has in the past not received a fair share of total investible resources. This needs to be rectified. Currently, irrigation potential is growing at an annual rate of about 2 million hectares. We have to evolve a plan to be able to double this rate in the next few years. Both major and medium and minor irrigation works must be planned and executed as part of an optimal national strategy for water use. Similarly, there is an urgent need for stepping up investment in such crucial elements of rural infrastructure as roads, markets and supply of pure drinking water.

viable households

The programme of agricultural development will have to be conceived not merely in terms of increase in agricultural productivity but also in terms of making all the households in the agricultural sector more or less viable. This will require, simultaneously, plans for development of ancillary activities like poultry and dairy farming, fisheries, farm forestry, etc. Not only will this involve the provision of necessary inputs but also the development of organisations which will collect, store and market the produce, for efficient marketing is vital to the success of all these varied activities. We must generate large enough employment opportunities in rural areas so as to slow down migration to urban areas. This can best be achieved in the framework of an area-centred programme of inte-

grated rural development, in which the needs of small and marginal farmers and agricultural labourers receive priority attention.

The provision of more resources, howsoever vital, will not alone achieve the objective. The entire apparatus for utilising these resources will have to be completely revamped in order to improve their effectiveness. It will require changes in the organisation for both planning and implementation. It will need more intensive effort at improving agricultural technology and much greater extension effort. It will need speedier construction of dams, wells and channels, faster and efficient rural electrification, better water and land management, more timely supply of fertilisers and pesticides, a more organised supply of seeds and better storage and marketing facilities. Parts of

the country have been able to achieve this. What is needed is the spreading of such organisation, together with required resources, to those lagging behind. The effort needed would call for a total transformation of the agencies which are presently connected with agricultural development.

Primacy of agriculture does not imply indifference towards or neglect of, modern industry. All that it implies is that, so far as a larger proportion of investible resources available to the public sector is diverted to agricultural development, resources for industrial growth will have to be found increasingly by enterprises themselves generating larger internal resources of their own through more efficient operation as well as more effective pricing policies. Government will also continue to pay particular attention to the development of industrial

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such as fertilisers, pesticides, cement, power and petroleum which have an important bearing on agricultural productivity. In order to create greater consciousness in Indian industry, it is our intention to introduce, gradually, more competition by way of a more liberal import policy. In addition, ways and means will be found to make possible optimal use of capacity in existence. Simultaneously, in executing new projects, we must avoid delays which lead to escalation of capital costs. It is usually not realised how great is the cost of these delays. An analysis for cost escalations in 18 projects which had secured the approval in 1976-77 of the Public Investment Board shows that, in these projects, investment costs had increased to Rs 555 crores as against the original estimate of about Rs 255 crores. This serves to emphasise the importance of timely execution of projects and the extremely high social cost of delay.

troubled industries

Some of our large industries, such as textiles, are today in serious trouble and are in particular need of replacement and modernisation. Therefore, adequate resources will have to be provided for investment in these sectors. The present arrangements which the Industrial Development Bank of India and the other term lending institutions have for this purpose will have to be continued. Also, efforts have to be made to ensure that these industries generate more inter-al funds and, thus, do not face conditions which ultimately make them sick. I believe it might be a good idea, if the managements of more efficient mills were to be prevailed upon to take over, as an act of social

responsibility, some of the sick units and nurse them back into sound health under conditions to be laid down by government.

Faster and timely development of power is an essential condition of accelerated economic progress. I am convinced that much more remains to be done in respect of both power planning and development if we are not to have to face recurring severe shortages of power. Power is now recognised to be as essential to agriculture as to industry and shortages of power can disrupt the production of food as much as of cloth. We shall therefore make every effort to hasten the pace of expansion of power in the coming years.

There is another field, however, in which modern industry needs to be developed further

and that is the field of exports. Experience has now been gained with regard to marketing a wide variety of manufactured goods, particularly engineering goods, in foreign markets. Since this is the field in which world trade is growing fastest, we should push ahead in this area. This means building up more capacity, acquiring suitable know-how and adopting even better marketing techniques. While I do not regard export led growth as a viable proposition in Indian conditions, it is necessary that exports should continue to increase at the rate they have been growing in the past two years. Such an increase is essential for acquiring greater manoeuvrability with regard to economic management. Government is committed to providing a stable policy framework conducive to conti-

nued expansion of our exports. Simultaneously, it is our solemn resolve to deal firmly with smugglers and other antisocial elements indulging in illegal dealings in foreign exchange. Fortunately, judging by recent data on inward remittances, smuggling does not seem to have revived on any large scale. We shall nevertheless, remain vigilant in this matter.

Since unemployment is one of our most pressing problems, the greatest attention needs to be given to its solution. By now, it is obvious that this problem cannot be solved through exclusive reliance on industrialisation. New strategies have, therefore, to be evolved to provide gainful employment on a large scale in the rural areas themselves. The accelerated growth of agricultural production will in itself increase the

Index Numbers of Wholesale Prices
(1970-71=100)

	Weight per cent	Per cent variations over the preceding year				Per cent Variations March 1977* over Mar. 1976
		1973-74	1974-75	1975-76	1976-77*	
		(average)	(average)	(average)	(average)	
	1	2	3	4	5	6
All Commodities	100.00	20.0	25.2	(—)1.1	2.0	11.9
Primary Articles	41.67	28.1	25.2	(—)6.8	0.7	18.9
(a) Food Articles	29.80	22.7	26.0	(—)4.8	(—)5.2	14.3
Foodgrains	12.92	18.7	38.0	(—)11.1	(—)12.3	11.0
Cereals	(10.74)	16.4	42.3	(—)10.0	(—)10.7	10.1
Pulses	(2.18)	28.3	21.9	(—)15.8	(—)19.7	14.6
(b) Non-food Articles	10.62	36.5	11.7	(—)14.5	19	40.7
Raw cotton	2.25	51.0	22.1	(—)19.2	44.7	48.3
Raw Jute	0.43	(—)10.0	5.1	12.9	8.3	7.5
Oilseeds	4.20	56.3	9.4	(—)27.0	20.0	84.1
(c) Minerals	1.25	81.2	87.9	1.1	0.5	(—)1.5
Fuel, Power, Light and Lubricants	8.46	18.6	51.8	10.5	5.3	1.4
Manufactured Products	49.87	14.4	21.0	1.4	2.3	9.1
Food Products	13.32	14.3	9.2	(—)2.9	4.2	26.4
Edible Oils	(3.72)	48.8	16.6	(—)21.7	5.9	72.1
Sugar, Khandsari and Gur	7.24	2.3	3.8	6.9	1.9	11.7
Textiles	11.03	19.6	18.5	(—)7.8	5.2	13.1
Chemicals and Chemical Products	5.55	10.9	45.0	4.0	(—)2.5	0.2
Basic Metals, Alloys and Metal Products	5.97	22.0	24.2	7.1	2.9	1.9
Machinery and Transport Equipment	6.72	9.5	27.5	10.2	(—)1.4	(—)1.7

*Provisional.

Source : Economic Survey 1976-77

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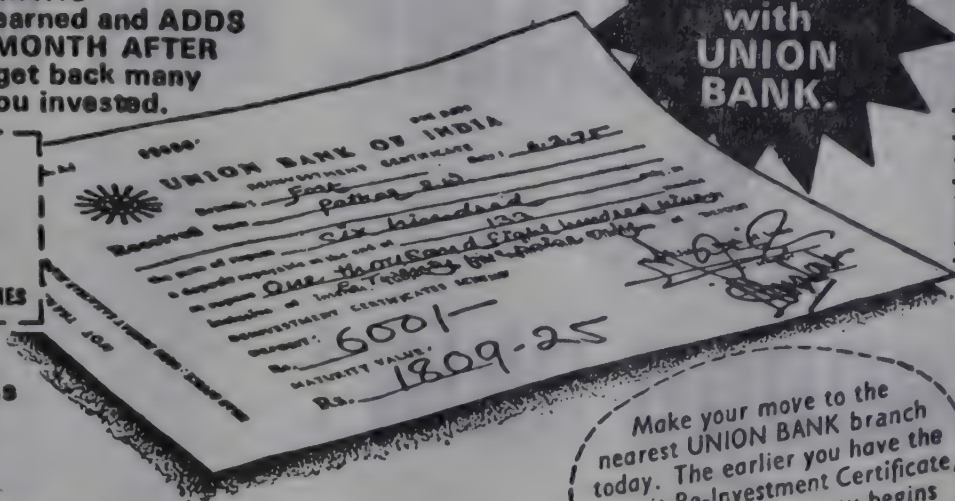
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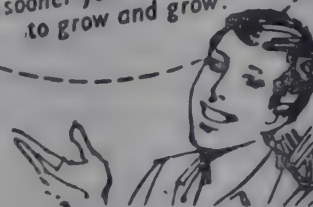
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scope for employment in the rural areas. It is interesting to note that labour input per acre of land in Japan is four times the corresponding level in India. This is an indication of the scope for generating new employment opportunities in the process of modernising our agriculture. More irrigation, better cultural practices, double-cropping, increased use of fertilisers and weeding will certainly create more jobs, but it will have to be ensured that premature mechanisation does not affect this process adversely. Faster agricultural growth will offer greater scope for employment in such ancillary activities as repairing, servicing, transportation, etc. Simultaneously, greater attention will have to be paid to the development of rural infrastructure, particularly the construction of rural roads. Proper marketing of agricultural produce cannot take place if there is no adequate network of roads connecting our villages to the nearest marketing centres. Deliberate steps will also have to be taken to facilitate processing of local produce so as to provide more employment in rural areas. Gandhiji's idea of self-reliant rural communities will have to be given concrete shape if an effective solution is to be found to the problem of unemployment.

small industry

The development of small scale industry should also enable us to make a significant dent in the problem of unemployment. Such industry should not be a scaled-down version of large industry but should be one which uses technology which is appropriate to our conditions of surplus labour and scarce capital. Although there has been a great

deal of talk of appropriate technology, it is surprising how little effort we have put into its development. For example, the bullock-cart remains and will remain for many years to come an important means of transport in rural areas. Yet, it is only very recently that we have started thinking about improving its effectiveness. Unfortunately, insufficient resources have been devoted to the development of appropriate technology. We have always gone after the most modern technology even though it may not necessarily have been the most efficient for us. This trend needs to be reversed.

appropriate technology

We do not however have to wait for appropriate technology in order to make a beginning in this field. The experience of handlooms and powerlooms shows how modern organisation and marketing methods can breathe life into labour intensive industry. More work along these lines should be undertaken with regard to a number of cottage and village industries in order to combine greater employment with efficiency.

The problem of unemployment in urban areas, particularly among the educated persons, is no less serious. The House will be happy to know that we are now working on the details of a specific scheme designed to create opportunities for the educated unemployed. Under this scheme, we shall provide through the banking system "seed" money and other finance at relatively attractive rates of interest to enterprising young men considered eligible for assistance.

The beneficial effects of a high rate of economic growth can easily be neutralised by an

increase in population. Therefore, population control has to be an integral part of our programme of raising the standard of living of the common man. Unfortunately, the events of the past two years have given the family planning programme a severe setback just when it was beginning to be generally accepted even in backward areas. This programme is so vital to our economic progress and well-being that all possible efforts must be made in a sustained way to persuade people to accept the small family norm. Any investment, therefore, that is necessary for this purpose should be undertaken without any hesitation. And because it is our firm determination to achieve our objectives through persuasion rather than coercion, the effort that will have to be put in will have to be greater and more sustained.

The success of the program-

mes I have been talking about depends upon adequate resources being available. Other countries which have achieved high rates of growth have been able to invest as much as 30 per cent of national income because of their high volume of savings. The Indian experience has been otherwise. Voluntary savings have been inadequate. Attempts to push up the rate of domestic savings through created money and deficit financing have accentuated inflationary pressures but have not succeeded in raising the savings rate. Thus, some fresh thinking is necessary regarding the means of enlarging the pool of national savings in a non-inflationary manner.

It is doubtful if taxation alone can achieve such an increase. High direct tax rates have been found to be counter-productive because of the evasion that ensues, and, in any case, the number of people

Variations in Money Supply and Monetary Resources
(Rs crores)

	Currency with the public	Deposit money	Money supply with the public	Monetary resources	Currency as per- centage of money supply (end of the period)
1970-71	366 (9.1)	356 (14.5)	723 (11.2)	1244 (13.2)	61.0
1971-72	434 (9.9)	510 (18.2)	945 (13.1)	1665 (15.6)	59.3
1972-73	640 (13.3)	651 (19.6)	1291 (15.9)	2181 (17.7)	57.9
1973-74	887 (16.2)	561 (14.1)	1448 (15.4)	2510 (17.3)	58.4
1974-75	29 (0.5)	719 (15.9)	748 (6.9)	1870 (11.0)	54.9
1975-76	361 (5.7)	955 (18.2)	1316 (11.3)	2843 (15.1)	52.1
1976-77	1154 (17.1)	1061 (17.1)	2215 (17.1)	4596 (21.2)	52.1
(Upto 25-3-77)	360 (5.6)	775 (14.8)	1135 (9.8)	2650 (14.0)	52.8
1975-76 (Upto 26-3-76)					

Note : Figures in brackets indicate percentage variations.

Source : Economic Survey 1976-77

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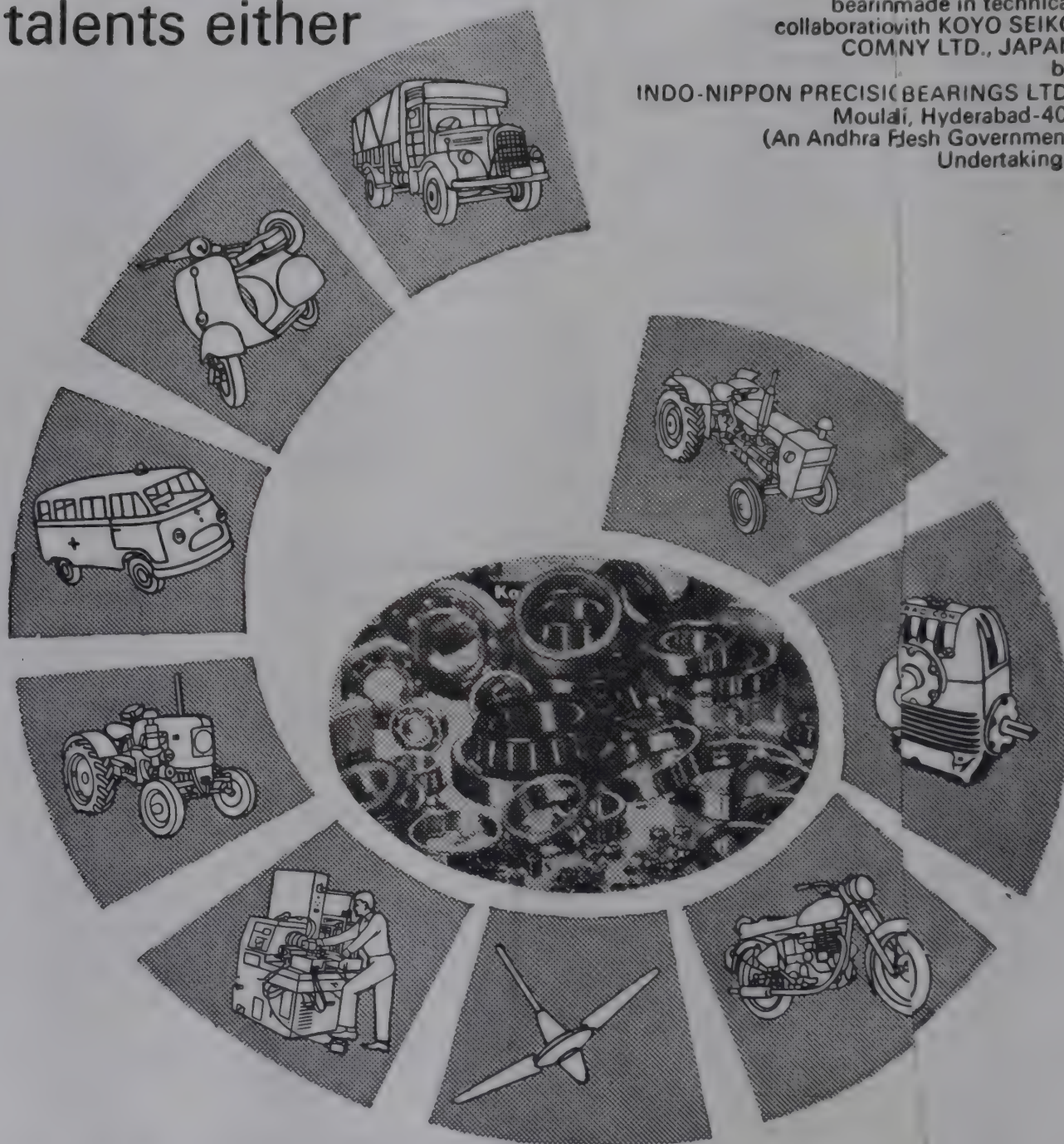
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to fall in the direct tax net so small that revenue realisation cannot match requirements. Indirect taxation seems to have reached its limit. Resource mobilisation by the Government through taxes has increased continuously over the years and at present tax revenue as percentage of national income is as high as 19.9. But public saving has not picked up because non-developmental expenditure such as interest charges, salaries and wages, dearness allowance to employees, defence expenditure and subsidies etc., have gone up more than proportionately. In addition, public sector enterprises have not been earning, till recently, adequate return chiefly because of deficiencies in management and improper pricing policies. Some of those shortcomings will have to be removed if public savings to increase and contribute to larger investment.

austerity needed

Individual saving can be promoted better if austerity is practised much more effectively. A large part of the increase in consumption arises from the demonstration effect of the high standard of living of the wealthy and the well-to-do in our society. To neutralise this, greater egalitarianism in consumption needs to be practised. Our tax system has to be so reoriented as to discourage ostentatious living and promote the habit of savings. However, austerity cannot be ushered in merely through tax reform. We must arouse public opinion against the life style inconsistent with the harsh economic realities of a poor country such as ours.

Government has been greatly concerned about the price situation ever since it came

into office. The persistence of the rising tendency in prices witnessed during the last few weeks has been due partly to the cumulative effect of imbalances introduced last year, and partly due to the seasonal pressure which is unavoidable during this part of the year. I cannot hold out the promise that government will be able to stabilise every single price in face of fluctuations in demand or supply which are inevitable. However, I can assure the House that we have taken steps, and will continue to do so, to ensure reasonable price stability in respect of basic articles of mass consumption. We have enough stocks of foodgrains to meet all genuine requirements at stable prices.

adequate foodgrains

We have inherited a difficult situation regarding vegetable oils. As the House knows, because of a steep fall in production of groundnuts last year, prices of vegetable oils have been rising for quite some time. Unfortunately, groundnut oil cannot be readily imported so that our ability to operate directly on the supply of this oil is rather limited.

However, we have arranged for adequate imports of other vegetable oils. These should help to stabilise the price of cooking media. Increased availability of vanaspathi and refined rapeseed oil meant for direct consumption would indirectly ease pressure on prices of groundnut oil. We have adequate stocks of sugar to enable us to meet all reasonable demands at stable prices. We are now working on the details of a new multifibre policy designed to make available quality cloth at prices within the reach of the common man. Such a

policy, if successful, would have the additional advantage of restoring to health all segments of India's largest industry.

I now turn to the Budget Estimates. The documents which I am presenting today repeat the Revised Estimates for 1976-77 as given in the interim budget, as the actuals are not yet available in most cases.

As regards the Budget Estimates for the current year, gross tax revenues at existing rates of taxation are estimated at Rs. 8879 crores, showing an increase of Rs 798 crores over the Revised Estimates for 1976-77. Of the increase, Rs 101 crores will accrue to the states as their share of taxes. While Union Excise Duties are expected to yield Rs 4550 crores, showing an increase of Rs 373 crores over

the Revised Estimates for last year, receipts from Income and Corporation taxes are estimated at Rs 2258 crores, an increase of Rs 180 crores. Customs receipts at Rs 1734 crores will be higher by Rs 243 crores as compared to last year.

Market loans are expected to yield Rs 1000 crores as compared to Rs 849 crores in the previous year. Besides, government propose to borrow Rs. 800 crores against drawal of foreign exchange reserves.

Net external assistance, after providing for repayments and interest payments, is estimated at Rs 1052 crores, including disbursements against new credits.

Taking other receipts into account, total receipts in the current year are estimated at Rs 15,366 crores.

I may now make a brief



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mention of the estimates of non-Plan expenditure. While presenting the interim budget, I indicated that all ministries and departments of government and public sector agencies will be asked to observe the utmost economy in expenditure, keeping in view the present government's emphasis on austerity and avoidance of all forms of ostention. Detailed instructions have since been issued in this regard for strict compliance by all ministries and departments. The full impact of the economy measures will be known only after the detailed exercises have been completed. Separately, certain areas of non-essential expenditure have already been identified and the budget documents reflect a reduction of about Rs 130 crores in these expenditures as a result of this exercise.

Defence expenditure

The provision for Defence expenditure is Rs 2752 crores, Rs 56 crores less than the provision made in the interim budget. The provision for food subsidy and carrying costs of buffer stocks has been, for the present, retained at Rs 460 crores, but it will be reviewed on the basis of emerging trends during the course of the year.

In its scheme of devolution, the Sixth Finance Commission could not take into account the net interest liability of states on account of loans raised and disbursed by them during the fifth Plan period for want of details. As recommended by that commission, the net interest liability of the deficit states has been computed and a provision of Rs 72 crores has been made in the budget for disbursement of additional grants-in-aid to the states concerned on this account, in

relation to the three years ending on 31st March, 1977.

I have received requests from central government pensioners for increase in the quantum of relief on their pensions in view of the high cost of living. As the House is aware, a measure of relief has been afforded from time to time in the past. I feel it would be only fair at this stage to grant a special relief at graded rates to them; this will cost the exchequer Rs 10 crores annually.

Annual Plan

I now turn to the outlays on the annual Plan for 1977-78. As I have already indicated, we are firmly of the view that our economic ills can be overcome only through a comprehensive reordering of Plan priorities. The Plan strategy has to be reappraised. It should recognise the primacy of agriculture and accord overriding priority to rural development and eradication of unemployment within a time frame. These are the tasks to which our reconstituted Planning Commission will no doubt address itself. That, however, will take some time. In the meanwhile it is necessary for the government to move in the desired direction. That is what this budget seeks to do.

Within the short time available to us, we have therefore made a quick review in consultation with various ministries of the outlays in the annual Plan for 1977-78, and tried to impart, to the extent possible, a new direction to our development programmes in line with the priorities and objectives set out in the manifesto of the Janata party. We are, however, not writing on a clean slate. Schemes in progress cannot be abandoned, nor even slowed

down unduly, without considerable financial loss. The commitments made to state governments in regard to central assistance for their Plans have also to be honoured subject to the conditions stipulated by the Planning Commission at the time of the finalisation of their Plans. These commitments do impose serious limitations in refashioning the Plan according to our thinking. The room for manoeuvrability is thus limited. Even so, appreciable savings have been effected. Schemes of relatively low priority have been suitably rephased.

True to the promises made

to the people, in the recent Plan, we have now provided for additional outlays for a culture, irrigation, power, khadi and village industries, sericulture, handlooms, postal and telephone facilities in rural areas and wide ranging rural infrastructure programmes covering, along other things, such schemes as durable roads and rural drinking water supply. It is our intention to step up further the outlay next year on programmes designed to develop rural infrastructure facilities so that over a period of, say, five years the basic needs of the entire rural population could be met.

Movements in India's Foreign Exchange Reserves
(excluding Gold and SDRs)

(Rs crores)

End of year	Foreign Exchange Reserves(*)	Variation in Reserves	Net Drawings from (+) and Repayments (—) to IMF	Variation in Reserves Exclusive of Transactions with IMF (3—4)
1	2	3	4	5
1971-72	480.4	—	—	—
1972-73	478.9	—1.5	—	—1.5
1973-74	580.8	+101.9	+62.0	+39.9
1974-75	610.5	+29.7	+484.7	+455.0
1975-76	1491.7	+881.2	+207.1	+674.1
1976-77(P)	2863.0	+1371.3	—302.8	+1674.1

N.B. At the end of March 1977 India's holdings of monetary gold valued at Rs 84.39 per 10 grams stood at Rs 187.8 crores which included Rs 5.3 crores of gold received by India under the Restitution Scheme of the IMF. Holding of SDRs were 187.4 million SDRs (provisional).

(*) All foreign exchange holdings are valued at par central rates upto June 1972, except for the holdings of Canadian dollars from June 1970 to June 1972 which are valued on the basis of the monthly averages of spot buying and selling rates in New York and the holdings of Deutsche Marks from May to November 1971 and of Yen and Sterling from September to November 1971 which are valued on the basis of the monthly averages of spot buying and selling rates in London. From July 1972 holdings in Sterling are valued at the average of the bank's spot buying and selling rates; all other foreign exchange holdings are valued on the basis of the monthly averages of the spot buying and selling rates in London from July 1972 to April, 1974 and on the basis of the averages of spot buying and selling rates in London from May 1973.

(P) Provisional.

Source : Economic Survey 1976-77

also our intention to
w the programmes of
clearance and urban re-
l in consultation with the
s and to provide addi-
l resources for accelerat-
the pace of execution of
e programmes.

ne allocations from the
ral Budget in 1977-78 for
central Plan and assistance
wards Plans of states and
n territories will be
5790 crores. The corres-
ding figure for the previous
was Rs 4759 crores. The
oo of development is thus
g maintained.

ne provision for the Plan
ne central budget is inclu-
of Rs 1812 crores on
unt of central assistance
state Plans and provisions
union territories Plans, the
plan of the Hills and Tri-
Areas, the North-Eastern
ncil, and assistance to the

Rural Electrification Corpora-
tion for power schemes. This
allocation also includes an ele-
ment of special advance Plan
assistance to states to provide
them adequate resources for the
required level of investment in
important projects in the core
sectors of irrigation and power.
A provision of Rs 3978 crores
has been made in the budget
towards central Plan. Inclu-
sive of the internal and other
resources of public under-
takings, the central Plan will
be of the order of Rs 4939
crores in 1977-78 as against
Rs 4090 crores in 1976-77.
The state and union territo-
ries Plans together will be of
the order of Rs. 5021 crores,
as against Rs. 3762 crores in
1976-77. The total outlay on
the annual Plans of the centre,
states and union territories
for 1977-78 will be Rs 9960
crores, as against Rs 7852
crores in 1976-77. This repre-

sents an increase of 27 per
cent.

We feel that for building a
forward looking, dynamic and
diversified agricultural econo-
my, it is necessary to aim at
integrated development of crop
production, livestock and poul-
try, fisheries and forestry. Spe-
cial emphasis will need to be
laid on development of dairy
industry on a cooperative basis
with a view to enabling milk
producers to get better and
fair prices. Creditable progress
has been made in the first phase
of Operation Flood Scheme
and we must now get moving
to take the full advantage
of Operation Flood Phase II.
The production policy should
be based on modernisation of
agriculture in which techno-
logy should, by far, be the
most crucial input to make a
sustained and high growth rate
possible. The existing Plan pro-
visions and priorities have been

rephased with a view to loccat-
ing gaps in development and
identifying the potential areas
where increased investments
could bring about further acce-
leration of the pace of agri-
cultural growth. In this exer-
cise we have kept in view the
need for (a) strengthening rural
infrastructure as a basis for
future accelerated develop-
ment, (b) generation of employ-
ment in rural areas, (c) special
attention to the needs of the
weaker sections of the society,
and (d) giving a fillip to the
production of cotton, oilseeds
and pulses so as to correct the
supply and demand imbalances.
A pilot project for desert deve-
lopment in Haryana, Gujarat
and Rajasthan is being evolv-
ed and provision has been
made for this purpose in the
budget estimates.

Irrigation holds the key to
increased agricultural produc-
tion. Though the fifth Plan



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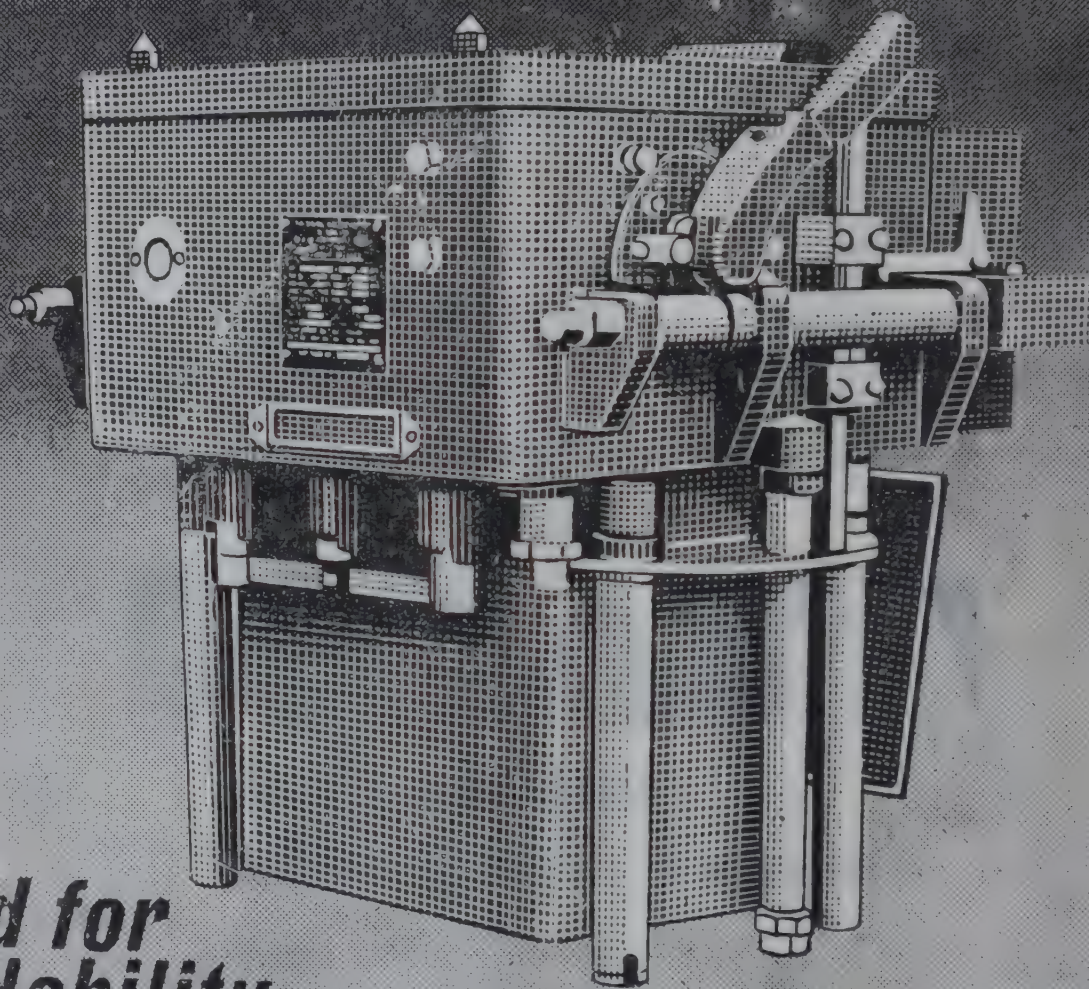
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es a target of 5.8 hectares to be brought irrigation, the financial do not match the target. Further, the need for initiation in the current new irrigation projects as to have an adequate of projects has been ed. Greater emphasis so have to be laid on nisation of irrigation projects as to conserve water, is a scarce resource. ng all these ends in view, propose to provide Rs 100 as advance Plan assistance to states for irrigation projects.

Plan outlays for minor irrigation will be supplemented to the extent of about Rs 20 crores from the Agricultural Refinance and Development Corporation, and other financial institutions. Under the scheme of rural electrification for energising the pump sets we have made a provision of Rs 175 crores which will be augmented to a significant extent by institutional finance.

The total Plan outlay on agriculture and allied services, major, medium and minor irrigation projects and fertilisers, together with provisions for cooperatives and power sectors attributable to rural areas, works out to Rs 3024 crores. The House will be glad to know that this constitutes 30.4 per cent of the aggregate outlay of the central, state and union territories Plans.

While the development of national and state highways has received reasonably adequate attention in successive Plans, the needs of rural areas have been sadly neglected. I feel that the centre should take the initiative in promoting the construction of approach roads which constitute an essential ingredient of any programme for building up the infrastructure for rural development. We therefore propose to make a beginning with an outlay of

Rs 20 crores which, suitably supplemented with the resources of the state governments and local bodies, will accelerate the programme in this vital area. The new scheme of 'grain for work' could also be utilised imaginatively for this purpose.

Despite three decades of planning, there are still a large number of villages which suffer very acute scarcity of drinking water. While the responsibility for finding resources and execution of the programmes for this purpose is that of the state governments, I feel that the central government should also intervene actively and supplement the efforts of the states. Such supplementary assistance should be directed towards provision of drinking water facilities in problem villages to be identified with reference to objective criteria. We propose to make an earnest start in the current year with an additional provision of Rs 40 crores over and above the existing outlays for this

programme. Progressively, the allocations for this programme would be stepped up so as to carry the benefits of the programme to all the problem villages over a period of five years. The programme will have to be closely monitored at the central as well as the state level.

I would also like to refer here to schemes for the welfare of Harijans, Adivasis and other less advanced sections of our people. As I have said earlier, these find a place largely in state Plans. I am not satisfied with the programmes and allocations in respect of them and it is my intention to take up these matters on a priority basis with state governments and central ministries concerned so as to add to the effectiveness of these programmes.

A sum of Rs 234 crores has been provided in the central Plan for power development. This includes Rs 33 crores for Singrauli Super Thermal Sta-

Value of India's Imports by Major Commodity Groups

Commodity	1972-73	1973-74	1974-75	1975-76	April-Dec.		Percentage change in April-Dec. 1976-77 over April-Dec. 1975-76
					1975-76	1976-77	
					6	7	
1	2	3	4	5	6	7	8
Food	80.8	473.1	763.8	1338.3	949.3	790.1	-16.8
Cotton	90.9	52.0	27.4	28.2	24.7	68.0	+175.3
Wool	8.9	16.1	26.3	24.5	20.0	19.1	-4.5
Animal and Vegetable Oils and Fats	24.9	64.9	34.9	18.3	14.4	74.2	+415.2
Fertilisers and Fertiliser Materials	145.7	226.8	588.9	556.3	504.8	158.8	-68.6
Chemicals	204.0	560.3	1156.9	1225.7	911.3	930.4	+2.1
Chemical Elements and Compounds	91.4	109.7	186.2	177.4	135.5	98.4	-27.3
Paper and Paper Board and Manufactures thereof	31.4	29.2	59.5	56.2	51.2	52.8	3.1
Metals (Iron and Steel and Non-ferrous)	334.9	389.8	602.4	403.5	308.5	291.7	-5.5
Capital Goods	550.8	673.5	723.3	910.7	690.3	700.6	+1.4
Others	303.7	360.0	349.2	418.7	306.2	407.5	+33.1
Total Imports	1867.4	2955.4	4518.8	5157.8*	3916.2	3591.8	-8.3

*Revised figure of total imports in 1975-76 is Rs 5265.2 crores. Commodity-wise break down of the revised total is not yet available.

Source : Economic Survey 1976-77

tion, Rs 1 crore for initiating action on a second Super Thermal Power Station, Rs 17 crores for inter-state transmission lines and Rs 52 crores for nuclear power projects. The state and union territories' Plans, which account for the bulk of the provision for power, envisage an outlay of Rs 1676 crores. An additional sum of Rs 20 crores is being provided to the Rural Electrification Corporation for systems improvement and for providing IT capacitors for rural consumers, both designed to minimise loss of energy.

Self-sufficiency in energy has assumed critical importance. The provision in the Plan for petroleum is being accordingly stepped up from Rs 485 crores in 1976-77 to Rs 677 crores in 1977-78. Of this Rs 451 crores will be provided to the Oil and Natural Gas Commission for their on-shore exploration pro-

gramme and for accelerating the pace of off-shore exploration. We have recently cleared the scheme for development of oil and natural gas resources of Bombay High and Bassein fields. Indigenous production of crude oil is expected to reach 11.31 million tonnes in 1977-78 as compared with 8.89 million tonnes in 1976-77.

Having regard to the difficult power situation of Tamil Nadu, a special provision of Rs 5 crores has been made for Neyveli Lignite Corporation for a new lignite based power plant with a capacity of 200 MW.

After taking into account the feasibility of rephasing the expansion programmes of the Bhilai and Bokaro complexes, a budgetary allocation of Rs 511 crores has been made for steel as compared with Rs 402 crores in 1976-77.

The budgetary allocation for

transport and communications will be Rs 651 crores, of which Rs 302 crores will be for the Railways which have a Plan outlay of Rs 480 crores. A provision of Rs 10 crores has been made for metropolitan transport projects, of which Rs 8.6 crores is for the Mass Rapid Transit Project of Calcutta. A part of the Sixth Corridor Project for rapid mass transit system in Bombay has also been sanctioned.

The Plan for communications, including Posts and Telegraphs, has been modified to take into account the priority requirements of rural areas. Accordingly, an additional outlay of Rs 10 crores has been provided for opening more post offices and extension of telephone and telegraph facilities in rural areas.

It is our belief that khadi and village industries, if they

are properly organised and supported, are capable of generating employment on a large scale. A provision of Rs 10 crores has been made for programmes in the Plan to improve the understanding of the funds will be allocated as required. It is expected that these schemes in view will create employment for about 100,000 persons.

An outlay of Rs 20 crores has been provided for handicrafts and sericulture. Rs 4 crores for sericulture which is a substantial increase over last year. These additional outlays have been made in view to giving a fillip to rural and labour intensive industries.

Taking into account the expenditure both on Plan and non-Plan counts and estimated receipts at existing rates of taxation, the budget for the current year shows a deficit of Rs 202 crores.

Value of India's Exports by Major Groups

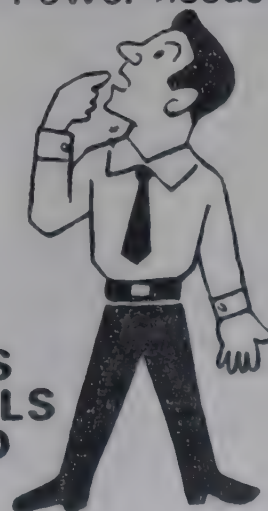
Item Group	1973-74	1974-75	1975-76	Percentage variation in 1975-76 over 1974-75	April—December		Percent variation April—December 1976-77 over April—December 1975-76
					1975-76	1976-77	
1	2	3	4	5	6	7	8
Oilcakes	178.2	96.0	86.1	-10.3	54.9	141.2	156.0
Tobacco	70.9	82.2	98.4	19.7	87.8	87.6	-0.2
Fish and Fish Preparations	89.2	66.2	126.6	91.2	93.4	137.9	47.0
Tea	146.0	228.1	236.8	3.8	179.8	216.2	20.3
Coffee	46.0	51.4	66.7	29.8	53.0	85.1	60.4
Sugar	42.7	339.0	472.3	39.3	308.9	103.2	-66.4
Cashew Kernels	74.4	118.2	96.1	-18.7	80.6	95.4	18.2
Groundnuts	35.8	25.6	49.8	94.5	18.8	35.5	88.3
Spices	55.1	51.4	71.0	15.6	37.7	34.2	-9.3
Iron Ore	132.9	160.4	213.8	33.3	139.0	157.7	13.4
Raw Cotton	32.4	15.2	38.8	155.3	16.2	26.6	64.2
Cotton Fabrics	195.0	158.9	158.7	-0.1	99.0	178.9	80.7
Cotton Apparel	67.4	96.9	144.9	49.5	83.4	175.3	110.0
Art Silk Fabrics	28.3	18.4	15.1	-17.9	10.5	21.1	101.0
Jute Manufactures	227.5	296.8	248.3	-16.3	187.6	137.6	-26.7
Coir Yarn and Manufactures	15.3	17.9	19.0	6.1	13.5	18.0	33.3
Leather & Leather Manufactures (excluding footwear)	172.2	145.0	201.3	38.8	133.4	189.9	42.3
Engineering Goods	201.7	356.7	408.7	14.6	285.6	391.4	37.1
Handicrafts	173.6	186.6	224.1	20.1	152.2	285.7	88.7
Chemical & Allied Products	50.3	92.9	84.5	-9.0	64.9	79.8	23.1
Iron & Steel	26.2	21.1	68.2	223.2	37.9	206.5	444.3
Vegetable Oils (essential and non-essential)	37.9	143.0	37.2	-13.5	33.0	43.1	30.6
Others	424.4	651.0	775.3	19.1	544.0	908.3	66.3
Total	2523.4	3328.8	3941.6*	18.4	2715.0	3557.9	30.3

*Revised figure of total exports for 1975-76 is Rs 4042.8 crores. Commodity-wise details of the revised total is not yet available.

Source : Economic Survey 1976-77



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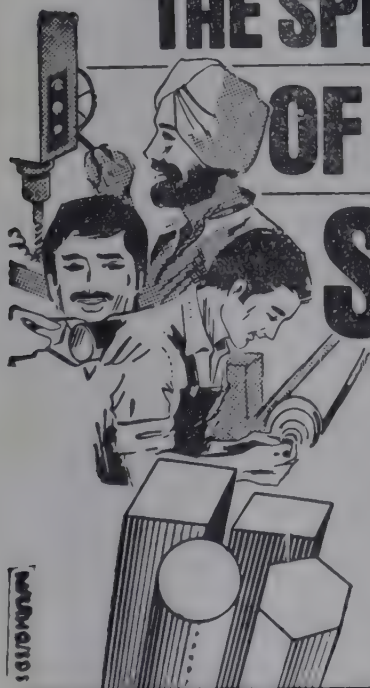


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ke on luxury goods

Finance minister, Mr H. M. Patel, formulated the new tax proposals keeping in the promises made in the election manifesto of the Janata party. In the of indirect taxes, he took special care not to impinge on the necessities of The fresh resources are proposed to be raised through additional imports on less ntial or luxury items. The changes in direct taxes are designed to raise orate savings, channel additional funds into productive investment and hasten pace of industrialisation in the country.

full text of part 'B' of the Finance minister's speech follows:—

now address myself task of formulating ls for covering the de- the extent feasible.

proposals, in so far as axes are concerned, am presenting before e designed to increase te savings, channel ounds into productive ent, accelerate the pace trial growth and, at the ne, strengthen the re- tive role that direct o my mind, must be o play.

o far as indirect taxes ncerned, I have endea- to ensure that my pro- do not impinge on the ies of life. There, I ight to raise resources, main, from the less l or luxury items, while relief to some deserving and simplifying and lising the central excise ructure generally.

lfilment of an assurance anata party manifesto, ose to provide that no -tax shall be payable ividuals and Hindu un- families whose tax- come does not exceed 000. In order, however, the sacrifice of revenue minimum, the *nil* rate

slab of income is being retain- ed at Rs 8,000. Hence, where the taxable income exceeds Rs 10,000, the excess over Rs 8,000 will be charged to tax as at present subject to the grant of marginal relief in cases where the taxable income exceeds Rs 10,000 by a small margin.

increased surcharge

I do not propose to make any change in the basic rates of income-tax. However, in view of the imperative need to raise additional resources, I propose to increase the rate of surcharge on income-tax in the case of all categories of tax- payers, except companies, from 10 per cent to 15 per cent. With the increase in the rate of surcharge, the maximum margi- nal rate of personal income-tax will now be 69 per cent, as against 66 per cent at present.

It is my feeling that wealth- tax rates were reduced in the budget of 1976 to an unjusti- fiable extent. If the essential objective of a wealth-tax is to be achieved, it must be so devis- ed that while it does not be- come oppressive and counter- productive, it does have an effect on excessive accumula- tion of wealth in individual hands. In this view of the

matter, I propose to raise the rates of wealth-tax. The exist- ing rate of half per cent will continue unchanged on the first Rs 2.5 lakhs of net wealth, but for the higher slabs there will be an increase of half a per cent over the existing rates, while in the highest slab of over Rs 15 lakhs, the new rate will be three and a half per cent, that is, an increase of one per cent over the existing rate. There will be corresponding changes in the rates applicable to Hindu undivided families having one or more members with net wealth exceeding Rs 1 lakh. The new rate schedule will come into force from the current assessment year and will thus supersede the changes made last year in the rate schedule. These changes will result in an additional revenue of about Rs 10 crores in 1977-78.

CDS continued

As hon'ble members are aware, Government has al- ready dispensed with the Com- pulsory Deposit Scheme in its application to additional dear- ness allowance as from 6th May, 1977. Having regard, however, to the state of the economy and the inflationary pressures that exist, I propose

to continue the Compulsory Deposit Scheme for income- tax payers for another two years.

With a view to stimulating industrial development and economic growth, I consider it desirable to widen the scope of the scheme of investment allowance introduced last year. That scheme has unfortunately not laid down any well-defined and clear criteria for selecting industries to which the benefit of the concession was to be extended. This made it difficult to explain to those claiming eligibility why some industries had been given the benefit, while it was denied to others.

generating resources

Since there is a need for en- couraging generation of inter- nal resources for financing investment, I consider it best to extend the scope of invest- ment allowance to all indus- tries except those which are engaged in the manufacture of specified low priority items such as cigarettes, cosmetics and alcoholic beverages. This measure will be of great bene- fit to the economy.

In order to promote scienti- fic and technological self- reliance, I propose to provide an incentive to the users of technical know-how develop- ed in our country. It is accor- dingly proposed to grant invest- ment allowance at the higher rate of 35 per cent on machi- nery and plant installed for the manufacture of any article made in accordance with know- how developed in government

laboratories, public sector companies and universities.

From the point of view of maximising expansion of industry, I can see little merit in compelling closely-held industrial companies to distribute a high percentage of their net profits as dividends. I propose, therefore, to exempt such companies from the requirement of compulsory distribution of dividends. I do not propose to extend this relief to all other kinds of closely-held companies.

It is my belief that the present structure of capital gains taxation stands in the way of adequate mobility of investible resources, and perpetuates investment in low priority assets. In this view, I am proposing certain changes in our existing scheme of capital gains taxation:

(a) At present capital gains arising from the transfer of a capital asset held by a taxpayer for a period exceeding 60 months alone are entitled to concessional tax treatment. With a view to improving mobility,

I propose to reduce the holding period to 36 months.

(b) In respect of capital assets acquired prior to the 1st of January, 1954, a taxpayer has the option of adopting the fair market value of the asset on 1st January, 1954 in place of the actual cost of acquisition. Determination of the fair market value of a capital asset with reference to a date more than 23 years ago presents practical difficulties. Moreover, capital gain arising from the transfer of assets held over a length of time is, in a world of rapid and continuing inflation, to a great extent illusory in nature. On the whole, therefore, it seems to me desirable to advance the notional date by 10 years, namely, to 1st of January, 1964.

(c) Capital gains tax is payable on the sale of a residential house. The existing law provides that if another residential house is either purchased or constructed within a specified time, then the capital gains can be wholly or partially exempted depending upon the amount of capital gains utilis-

ed on the new residential house. Similar concessions are not available in respect of capital gains arising from sale of assets, such as jewellery or shares. I see no reason for drawing such a distinction. Accordingly, I propose to exempt the capital gains from tax, if the sale proceeds of any asset are reinvested within six months in shares, bank deposits, units of the Unit Trust or other preferred assets. In order to prevent abuse of this concession, it is required that the assets in which the sale proceeds have been reinvested are held for a period of not less than three years.

Sickness among industrial undertakings is a matter of grave national concern. Closure of any sizeable manufacturing unit in any industry entails social costs in terms of loss of production and employment, and also waste of valuable capital assets. Experience has shown that taking over of such units by government is not always the most satisfactory or the most economical solution. A more effective course would be to facilitate the voluntary amal-

gamation of sick units with sound ones, providing certain incentives by removing impediments in the way of such amalgamation. It is accordingly proposed that where amalgamation is accepted by the central government to be in the public interest, the accumulated losses and unabsorbed depreciation of the amalgamated company will be allowed to be carried forward and set off in the hands of the amalgamated company.

With a view to encouraging companies to involve themselves in the work of rural fare and uplift, I propose to provide that expenditures incurred by them on approved programmes of rural development will be allowed to be deducted in computing their profits.

In order to give a stimulus for the setting up of small-scale industrial undertakings in rural areas, to accord preferential treatment to industries which are set up in such areas, and to begin their manufacturing activity after 30th June, 19

Inflow of External Assistance : Gross and Net

(Rs cr)										
Items	1967-68	1968-69	1969-70	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77
1	2	3	4	5	6	7	8	9	10	11
I. Gross Disbursements	1196	903	856	791	834	666	999	1337	1839	
of which :										
(a) PL-480 Food*	285	131	128	57	—	—	—	—	92	
(b) PL-480 Non-Food	57	27	41	32	112	4	—	—	—	
(c) Other Food	45	55	19	36	32	—	150	162	97	
II. Total Debt Servicing	333	375	412	450	479	507	595	626	686	
of which :										
(a) Amortisation Payments	211	236	268	290	299	327	399	411	463	
(b) Interest Payments	122	139	144	160	180	180	196	215	223	
III. Net inflow of Assistance (I—II)	863	528	444	341	355	159	404	711	1153	

*Includes assistance by way of imports under rupee payment terms and under convertible currency credits.

†Estimates.

Notes : 1. Gross aid disbursements take into account debt relief which is inclusive of debt rescheduling/postponement, etc. Debt service payments relate to those involving foreign exchange and through exports of goods.

2. Figures for 1973-74 include USSR wheat assistance and those for 1974-75 and 1975-76 include USSR wheat assistance, oil credit assistance made available under the United Nations Emergency Operations Scheme.

Source : Economic Survey 1976-77



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1	2	3	4	5
6	7	8	9	0

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4. Sujata Textile Mills,
Nanjangud (Karnataka)
- 5) La Fashion Garments, Faridabad (Haryana)

PERKINS

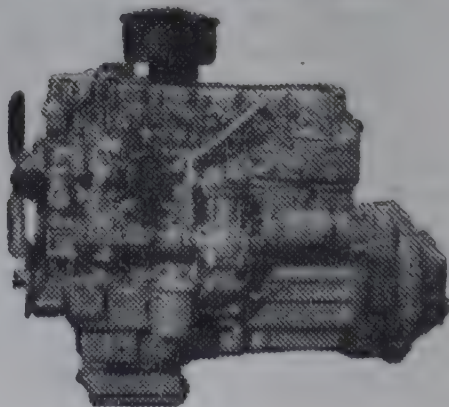
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rial undertakings will be d to a deduction in the atation of their taxable s of an amount equal to r cent of the profits. oncession will be avail- or each of the ten years encing from the year in the undertaking begins anufacturing activities.

der a provision made last companies were given the n, instead of paying five ent surcharge on income- o deposit an equivalent nt with the Industrial opment Bank of India period of five years. I ose to withdraw this op- The budget accordingly credit for an additional cept of Rs 56 crores on account.

charitable donations

e amount of donations for able purposes qualifying ax exemption is limited to r cent of the gross total ne of the donor, subject er to a monetary ceiling s 2 lakhs. It is felt that this g is unduly restrictive and discourages more liberal tions to deserving chari- I propose accordingly that onetary ceiling be raised Rs 2 lakhs to Rs 5 lakhs.

ty per cent of the remun- n received by Indian tech- ns from a foreign govern- or a foreign enterprise services rendered outside a is exempt from income- We cannot justifiably deny oncession when the em- er happens to be an Indian ern. I propose accordingly nlarge the scope of this ession to cover Indian nicians employed by Indian erns in any branch or office de India.

eduction of tax from small lends has been a source of siderable hardship to a

large number of small investors in joint stock companies. With a view to avoiding inconvenience to such investors, and in particular to investors from rural areas, the requirement of deduction of tax at source from dividends will be waived in cases where the dividend paid does not exceed Rs 250.

trust investment

Under a provision made by the Taxation Laws (Amendment) Act, 1975, charitable or religious trusts and institutions are required to invest their funds in certain forms and modes specified in the Income-tax Act. Any trust or institution which does not conform to the prescribed pattern of investment in any accounting year commencing on or after 1st April, 1978, would lose exemption from income-tax. Having regard to practical difficulties involved and to ensure a more orderly change-over in their pattern of investment in line with the new provisions, the date for change-over to the new investment pattern is proposed to be extended by three years, i.e., from 1st April, 1978 to 1st April, 1981.

I have taken credit for increasing the surcharge on income-tax and increasing the rates of wealth-tax. The loss of revenue involved in exempting individuals, Hindu undivided families, etc. with an annual income up to Rs 10,000 has also been taken note of. The overall effect of all the direct tax proposals would be a gain to the centre's revenue of Rs 92 crores in the current year.

As hon'ble members are aware, the direct taxes statutes have become increasingly complicated and incomprehensible over the years. It is, therefore, necessary to take immediate

action for the simplification and rationalisation of these laws with a view to making them readily intelligible to the taxpayers, reducing litigation, and, thus, subserving the interest of the national economy. It is also necessary to examine ways and means of improving the administration of these laws and expediting assessment, appellate and other proceedings under these laws. It has, therefore, been decided to appoint a committee of eminent experts to make recommendations for the simplification and rationalisation of the direct tax laws. It is my intention to ask the committee to submit its report before the end of the year.

Now I come to my proposals with regard to indirect taxes. My proposals concerning central excise fall into three categories, the first relates to proposals for raising additional

resources, the second to reduction or abolition of excise duties, and the last set of proposals seeks to rationalise and simplify the duty structure.

A 10 per cent excise duty is proposed to be levied on the following five items: (i) hand tools, and small tools not already excisable, (ii) weighing machines and weigh bridges, (iii) watches, clocks and time-pieces, (iv) electric light fittings and (v) polishes for footwear, metals, cars, etc. It is also proposed to levy an excise duty of 12 per cent on acetylene gas. Small scale manufacturers of hand tools and small tools, electric light fittings and polishes, will, however, be exempted in respect of their production up to Rs 1 lakh. These levies are expected to yield a revenue of Rs 11 crores in a year.

As hon'ble members are aware, in 1975, as an experi-

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mental measure, a one per cent general excise duty was levied on commodities which did not attract excise duties under any specific heads. The experiment has succeeded in the sense that without imposing any undue burden or harassment we were able to collect an appreciable sum of money, namely Rs 37 crores. When we stand in need of additional resources, it seems eminently suitable to raise this rate to two per cent. In order to minimise the cascading effect, a set off will be given where these goods go into the manufacture of other goods that are themselves excisable.

Realising that under this

excise head fall a larger number of small units producing a variety of goods I have provided that no duty will be levied on any unit whose annual turnover does not exceed Rs 30 lakhs. This will replace the existing exemption based on the number of workers. I am also exempting all non-power operated units from this levy.

Further, small newspapers have already been exempted from this levy. It is now proposed to extend this exemption to medium newspapers also. The big newspapers will continue to pay duty at the existing rate of one per cent.

The net additional yield

from this group of proposals is expected to be of the order of Rs 30 crores in a year.

I now come to the hardy annual, namely tobacco products. At present the rate of *ad valorem* duty on cigarettes increases as the value of cigarettes goes up. The progression in the existing rates is now proposed to be raised. In regard to branded biris it is proposed to raise the existing duty of rupee one per thousand to rupees two per thousand. These levies are estimated to yield an additional revenue of Rs 45 crores in a year.

The present system of taxing cinematograph films is based

primarily on the length of the film, and the number of prints. I intend to change the basis and adopt a value criterion, the revision being 10 per cent *ad valorem*. This is a much fairer criterion.

The present specific rates of duty on pigments, enamels, varnishes etc. are proposed to be replaced by *ad valorem* rates. These rates are being so adjusted that the duty on the high cost items like oil-bound paints, emulsion, etc. will increase by about 5 per cent generally, while that on cheaper items like black dry distemper will remain

Gross National Product and Net National Product (i.e. National income)

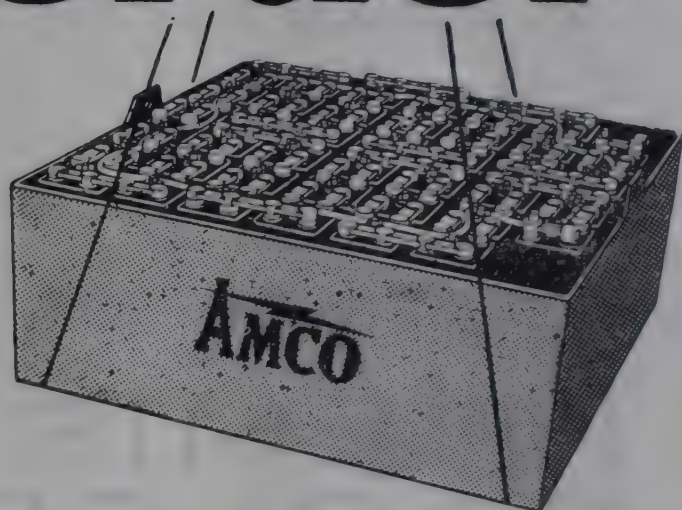
Year	Gross National Product (Rs. crores)		Net National Product (Rs. crores)		Per Capita Net National Product (Rs)		Index Number of Net National Product		Index Number of Per Capita Net National Product	
	At Current Prices	At 1960-61 Prices	At Current Prices	At 1960-61 Prices	At Current Prices	At 1960-61 Prices	At Current Prices	At 1960-61 Prices	At Current Prices	At 1960-61 Prices
1	2	3	4	5	6	7	8	9	10	11
1960-61	13999	13999	13263	13263	305.6	305.6	100.0	100.0	100.0	100.0
1961-62	14799	14513	13987	13729	315.0	309.2	105.5	103.5	103.1	101.4
1962-63	15727	14880	14795	13993	325.9	308.2	111.6	105.5	106.6	100.0
1963-64	17978	15686	16977	14771	365.9	318.3	128.0	111.4	119.7	104.4
1964-65	21113	16870	20001	15885	422.0	335.1	150.8	119.7	138.1	109.9
1965-66	21866	16113	20637	15082	425.5	311.0	155.6	113.7	139.2	101.4
1966-67	25250	16300	23848	15217	481.8	307.4	179.8	114.7	157.7	100.0
1967-68	29612	17609	28054	16463	554.4	325.4	211.5	124.1	181.4	100.0
1968-69	30293	18120	28607	16939	552.3	327.0	215.7	127.7	180.7	107.1
1969-70	33521	19274	31606	18016	597.5	340.6	238.3	135.8	195.5	111.4
1970-71*	36568	20399	34462	19096	637.0	353.0	259.8	144.0	208.4	114.4
1971-72*	38620	20634	36332	19298	657.0	349.0	273.9	145.5	215.0	114.4
1972-73*	42136	20415	39643	19048	701.6	337.1	298.9	143.6	229.6	110.0
1973-74*	52195	21515	49396	20143	856.1	349.1	372.4	151.9	280.1	114.4
1974-75*	61551	21572	58137	20183	988.7	343.2	438.3	152.2	323.5	112.0
1975-76†	64168	23414	60293	21952	1004.9	365.9	454.6	165.5	328.8	119.0
Annual Growth Rate during Third Plan	9.3	2.9	9.2	2.6	6.9	0.3				
1966-67	15.5	1.2	15.6	0.9	13.2	(—) 1.2				
1967-68	17.3	8.0	17.6	8.2	15.1	5.9				
1968-69	2.3	2.9	2.0	2.9	(—) 0.4	0.5				
1969-70	10.7	6.4	10.5	6.4	8.2	4.2				
1970-71	9.1	5.8	9.0	6.0	6.6	3.6				
1971-72	5.6	1.2	5.4	1.1	3.1	(—) 1.1				
1972-73	9.1	(—) 1.1	9.1	(—) 1.3	6.8	(—) 3.4				
1973-74	23.9	5.4	24.6	5.7	22.0	3.6				
Annual Growth Rate during Fourth Plan	11.5	3.5	11.5	3.5	9.1	1.3				
1974-75	17.9	0.3	17.7	0.2	15.5	(—) 1.7				
1975-76	4.3	8.5	3.7	8.8	1.6	6.6				

*Provisional. †Quick estimates.

Source : Economic Survey 1975-76

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from a Super Power



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And more — a long-term contract signed for supplying atleast 5000 more such batteries in 3 years valued at nearly Rs. 80.0 Million.

This is indeed a tall order for over Rs.106.5 Million from one source!

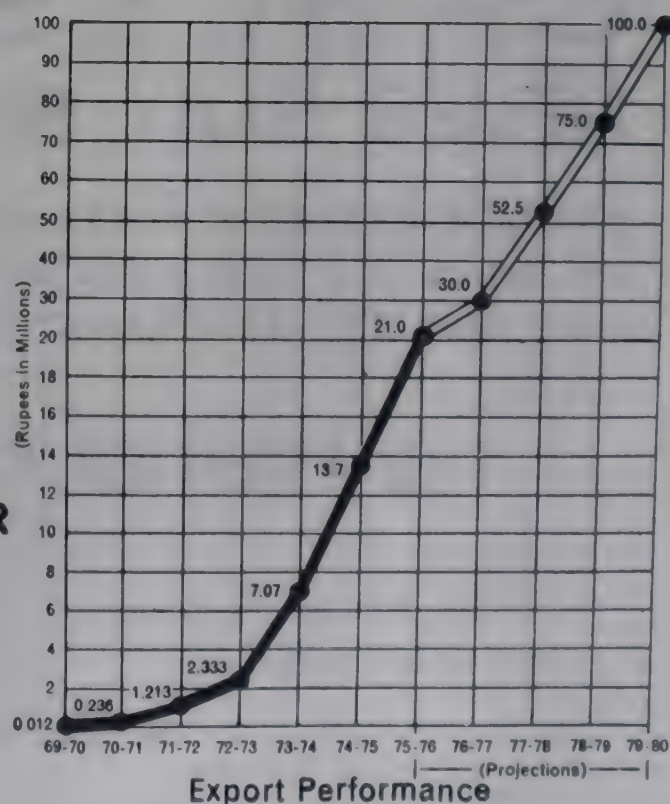
— in fact the tallest order for any battery company in India!!

Already 4000 Traction Batteries worth nearly Rs. 50 Million have been supplied to the USSR in the past 5 years.

Here is the seal of supreme confidence in Amco's INCOMPARABLE quality

AMCO POWER FOR A SUPER POWER

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Bangalore



basis uniformly *ad valorem*. The large manufacturers producing radios and transistor sets, tape recorders, tape recorder-cum-radios, stereos and hi-fi musical systems will pay duty varying from 15 per cent to 35 per cent *ad valorem*, depending on the item and the ex-factory price. It is proposed to give small manufacturers a uniform concession of 15 per cent *ad valorem* in the rate of duty, that is to say, the corresponding rates of duty that they will pay will vary from nil to 20 per cent *ad valorem*.

Experience has shown that a judiciously adjusted excise structure acts as a powerful incentive to manufacturers of electronic goods to reduce their prices. We propose to continue with this experiment further. In the case of TV sets the five per cent concessional rate of excise duty will henceforth be available only where the ex-factory price of a TV set with a screen exceeding 36 centimeters is Rs 1600 or less, instead of the existing limit of Rs 1800. In the case of tape recorders, there will be a concessional rate if the ex-factory

price does not exceed Rs 500. For electronic calculators too, there will be a concessional rate for calculators, if the ex-factory price does not exceed Rs 175.

I shall now expound my proposals concerning rationalisation. We are at present collecting excise duty on woollen yarn from a number of small spinners. This has led to evasion and other malpractices. It is, therefore, proposed to replace the excise duty leviable on woollen yarn by an increase in the customs duty at the stage of import of raw wool, waste wool and rags. As regards wool tops also, with a view to minimising evasion, it is proposed to reduce the present rate of excise duty of Rs 10 per kg to Rs 5 per kg and to make good the loss by increasing the import duty on raw wool suitably. Both these measures should result in making fabrics using indigenous wool cheaper.

Most steel re-rollers produce bars, rods, angles, etc. which attract an excise duty of Rs 130 per tonne in addition to the duty already paid on ingots. It is proposed to shift this duty of Rs 130 per tonne from the re-

rollers to the ingot manufacturers, namely, the main steel plants or the mini steel plants.

The existing scheme of excise duty on cotton yarn is based on a slab system where several counts are grouped together, and provides for sharp increases in the rates of duty when the count of yarn increases from one slab to another. This duty structure encourages under-spinning of cotton in order to avoid payment of duty at the higher rate and leads to wasteful use of cotton. Evasion too is not easy to check. To remove these defects, a new schedule of rates has been proposed where the duty rises gradually with each unit increase in the count of yarn. The new rates include a duty of half a paisa per count to enable government to recoup the loss incurred by exempting powerlooms and hand processors from the excise duty, to which I have referred earlier. As a further measure of rationalisation, viscose spun yarn is proposed to be subjected to the same rates of excise duty as cotton yarn.

Last year, a system of *ad*

valorem rates for cotton fabric was introduced. The rates, however, dependent on count of the yarn used in fabric. To rationalise the structure, I propose to adopt *ad valorem* system irrespective of the count of the yarn with a high degree of provision built into it. The new structure has been so designed as to yield approximately same revenue from cotton fabrics and yarn as is collected at present from these taken together.

As regards the cloth produced by powerlooms, it will be exempt if it is sold grey or processed by hand process but if it is processed by independent power-operated processors, the rate of duty will be 50 per cent of the composite yarn and fabric rate paid by mill fabrics.

A major reform which is proposed to be introduced relates to the nomenclature and classification of textile yarns and fabrics. Henceforth, yarn or fabric would ordinarily be classified on the basis of fibre which predominates in weight. The new system will

Estimates of Net National Product by Industry of Origin—Percentage Distribution
(At 1960-61 Prices)

Industry Group	1960-61	1965-66	1968-69	1969-70	1970-71*	1971-72*	1972-73*	1973-74*	1974-75*	1975-76
1	2	3	4	5	6	7	8	9	10	11
1. Agriculture, forestry and logging, fishing, mining and quarrying	52.5	44.2	44.9	44.9	45.8	44.5	41.9	43.0	41.4	42.0
2. Manufacturing, construction, electricity, gas and water supply	19.2	23.6	22.9	23.3	22.6	22.6	23.8	23.1	23.5	22.0
3. Transport, communications and trade	14.1	16.4	16.3	16.2	16.0	16.4	16.8	16.3	16.6	16.0
4. Banking and insurance, real estate and ownership of dwellings and business services	4.2	4.4	4.3	4.1	4.1	4.3	4.5	4.3	4.3	4.0
5. Public Administration and defence and other services	10.5	12.4	12.6	12.5	12.5	13.2	14.0	14.0	14.7	14.0
6. Net domestic product at factor cost	100.5	101.0	101.0	101.0	101.0	101.0	101.0	100.7	100.5	100.0
7. Net factor income from abroad	(—)0.5	(—)1.0	(—)1.0	(—)1.0	(—)1.0	(—)1.0	(—)1.0	(—)0.7	(—)0.5	(—)0.1
8. Net national product at factor cost	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

*Provisional. †Quick estimates.

Source : Economic Survey 1976-77

h simpler and will remove
y working difficulties. Fur-
the blending of polyester
e up to one-sixth of the
l fibre content will not
nge the classification of the
n. This should enable the
ile industry to use more
yester fibre without attract-
higher duty on the yarn
duced, and would be in
therance of a multi-fibre
icy which the government
the process of evolving.

merger of duties

pursuant to the govern-
at's acceptance of the re-
amendation of the Sixth
ance Commission, from
6-77 onwards, auxiliary
ies of excise have become
reable with the states in the
ne way as basic duties of
ise. Thus, the justification
levying auxiliary duties
arately has now disappear-
In order to simplify the
ucture and to eliminate un-
ecessary calculations, I have
ided to merge the auxiliary
ties with the basic duties
excise.

I have also carried out a
mber of minor modifications
the Central Excise Tariff,
ich I do not propose to
tail here. Full details of
ese changes are, of course,
en in the budget documents.
The total of the additional
ntal excise levies is estimat-
to yield Rs 106.3 crores in a
ar. The total concessions
en will mean a sacrifice of
15.7 crores in a year. The
t yearly increase in central
cise levies is thus estimated
Rs 90.6 crores. However,
cause of the transfer of the
ity on woollen yarn and wool
ps to imports, there will be a
ansfer of Rs 17 crores from
entral Excise head to Customs
ad, thus giving a net in-
crease of Rs 73.6 crores under

the Central Excise head. Of
this, the additional revenue
accruing to the centre in a
year will be Rs 53.8 crores,
while the states' share will be
Rs 19.8 crores.

Finally, I come to customs
duties in respect of which I
have to submit only a few pro-
posals. Indigenous production
of watches does not fully satisfy
the domestic demand. As a
result, considerable quantities
of foreign watches are known
to be smuggled into the coun-
try. Government has accord-
ingly decided to make good
the deficiency still remaining by
allowing the import of watches
through Hindustan Machine
Tools Ltd. In order that the
indigenously manufactured
watches and imported watches
are available to the public at
reasonable prices I am reducing
the import duty on watch parts
and watches from 120 per cent
to 50 per cent *ad valorem*.

duty on newsprint

I am proposing also to re-
duce the import duty on news-
print from five per cent to
two per cent *ad valorem*.

I would now make certain
proposals designed to stimu-
late industrial growth and to
enhance the competitiveness of
our industry. In order to intro-
duce a measure of competition,
it is proposed to allow the im-
port of certain selected items
of capital goods without prior
scrutiny from the indigenous
angle. At the same time, in
order to enable the Indian capi-
tal goods industry to meet
foreign competition more effec-
tively, I propose to bring down
the rate of import duty on
copper wire bars used for the
manufacture of certain large
sized electrical motors, gen-
erators and transformers from
the existing level of 45 per cent
plus Rs 5,600 per tonne to 40
per cent *ad valorem*. Similarly,

CORPORATE OBJECTIVES OF THE COCHIN PORT TRUST

To provide adequate service to trade and commerce
so as to subserve the promotion of international
trade, particularly of export trade; and to catalyse the
techno-economic development of its hinterland by
providing an important infrastructural facility.

To equip itself with modern techniques and mecha-
nical innovations as well as technical expertise, so
as to provide comprehensive, qualitatively efficient
service to the trade.

To ensure efficient handling of cargo at minimum
unit cost and to facilitate quick turn-round of ships.

To rationalise from time to time the entire chain of
operations from the ship's hold to the truck or
waggon and vice versa, so as to accelerate the
movement of goods while keeping costs to the
minimum.

To streamline procedural formalities and co-ordinate
the operations of other official agencies connected
with export and import trade, with the objective of
aiding quick flow of work.

To optimise utilisation of human and material
resources with due regard to safety, quality of
output and efficiency.

To facilitate effective and meaningful participation
of all the interests concerned in the Port's work.

To create a proper and congenial climate for labour
to play their due role in the operation of the Port
and to devise and implement measures for prompt
redressal of their grievances.

To afford to its workers and staff facilities which
take care of their medical, educational, recreational
and other welfare needs.

To optimise the returns on investments and to
maintain economy in expenditure in all spheres of
the Port's work.

To respond to the Port's increasing requirements
of technically competent managerial personnel at
various levels.

To take stock periodically of the changing economic
and technological situations in the Port's hinterland
and in the larger national context vis-a-vis the Port's
functioning, and to introduce organisational, pro-
cedural and operational innovations to meet these
changing situations.

the rate of duty on cold rolled non-grain-oriented sheets, alloy steel, tool steel, special steel, and high carbon steel is also proposed to be brought down from 75 per cent to 40 per cent. Further, stainless steel plates, sheets and strips of 16 gauge and thicker which are used in the manufacture of capital goods and which are today charged to 120 per cent or 320 per cent duty depending on the gauge, are proposed in future to be charged to 40 per cent duty only. Utensil grade stainless steel of 22 gauge and thinner, which today attracts a duty of 320 per cent, will be charged to import duty at 120 per cent. Varying rates of duty are proposed to be fixed for the intervening gauges, taking into account the possibility of re-rolling imported products. It is estimated that the reduction in duties on these copper and steel items will mean a revenue

sacrifice of the order of Rs 36.25 crores at the existing level of imports.

The effect of the increases in Customs duties proposed by me will be an additional revenue of Rs 15.5 crores in a year. The reliefs total Rs 37.7 crores in a year thus resulting in a net reduction of Rs 22.2 crores. But taking into account the transfer of Rs 17 crores from the Central Excise head to the Customs head, the overall effect of the budget proposals on Customs revenue will be a reduction of Rs 5.2 crores in a year.

Taking Union Excise duties and Customs duties together, the net yield for the centre in a year will be Rs 48.6 crores. The yield during the remaining part of the current financial year will be Rs 38.2 crores.

My proposals will yield, in all, Rs 130 crores for the centre in the current year. The de-

ficit of Rs 202 crores which I mentioned earlier will, thus, be reduced to Rs 72 crores. This is a relatively small amount and is unlikely to have any inflationary effect.

With this I have come to the end of my labours. My aim in this budget is to stimulate the economy into achieving a higher rate of growth of output and employment, and simultaneously to ensure that the fruits of economic progress are as widespread as possible. The emphasis on investment in agriculture, small and village industries and rural infrastructure is designed to achieve these objectives. My tax proposals seek to enlarge the pool of national savings while strengthening the role of taxation in reducing disparities of income and wealth. I have taken special care to widen opportunities for the small man—be he a farmer, an artisan or a

technocrat. It would be to pretend that we can achieve at one stroke the full utilization of the latent energies presented by our vast human resources. But a beginning has to be made. I venture to think that this budget marks such a beginning.

My party has emphasized liberty. But liberty does not mean freedom to starve or freedom to feel unwanted. Large-scale poverty and unemployment degrade those who have to suffer them, and degrade those who tolerate them. We owe it to ourselves to see that these twin scourges are eradicated as quickly as possible. We have a long and a difficult road ahead of us. But there can be no doubt about our commitment to our goals and ideals. I believe we are on the right course, and this budget represents the first step, however small, in that direction.

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Central Office

BAGHBAZAR, KATHMANDU, NEPAL

Achievements as on April 29, 1977

Deposits	: Rs. 649223 thousands (US \$ 5215 thousand)
Credits	: Rs. 632497 thousands (US \$ 5080 thousand)
Total Branches	: 78
Main corresponding bank in	: INDIA; JAPAN; HONGKONG; UK; USA; WEST GERMANY
Cable	: BANIJYA
Tel	: 15852, 11364, 13885 and 13171.

Budget at a Glance

Budget Document

(In crores of rupees)

	1976-77 Budget	1976-77 Revised	1977-78 Budget		1976-77 Budget	1976-77 Revised	1977-78 Budget
REVENUE RECEIPTS				REVENUE DISBURSEMENTS			
Revenue	7883	8081	8879	General Services	2224	2324	2609
—States'			+142*	Defence Services	2286	2374	2476
Share of Tax Revenue	1626	1689	1790	Social and Community Services	578	622	713
			+12*	Economic Services	1169	1525	1775
—Centre's Tax Revenue	6257	6392	7089	Grants-in-aid to States etc.	1433	1709	1914
			+130*	Total—Revenue Disbursements	7690	8554	9487
—Tax Revenue	1962	2115	2335				
—Centre's Revenue	8219	8507	9424	Revenue Surplus +	+529	—47	—63
			+130*	Deficit —			+130*
CAPITAL RECEIPTS				CAPITAL DISBURSEMENTS			
Recoveries	1497	1590	1803	General Services	22	90	243
Market Loans (Net)	535	849	1000	Defence Services	258	241	276
Internal Loans (Net)	815	734	894	Social and Community Services	93	90	117
Other Receipts	1576	2079	2245	Economic Services	1516	1582	1644
—Capital Receipts	4423	5252	5942	Loans and Advances	3391	3627	3801
—Other Receipts	12642	13759	15366	Total—Capital Disbursements	5280	5630	6081
			+130*				
Overall Deficit	328	425	202	Total Disbursements	12970	14184	15568
			—130*				
			72				

*Effect of budget proposals

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Details of Revenue Receipts

(In crores of rupees)

	1976-77 Budget	1976-77 Revised	1977-78 Budget
A. Tax Revenue			
Customs	1506.75	1490.45	1733.52 — 4.05*
Union Excise Duties	4093.30	4176.60	4549.92 +57.86*
Corporation Tax	1025.00	1113.00	1243.00 +55.20*
Income Tax	957.00	965.00	1015.00 +23.20*
Estate Duty	8.75	10.75	10.75
Taxes on Wealth	52.00	59.00	45.00 +9.90*
Interest Tax	85.00	90.00	99.00
Gift Tax	4.75	5.35	5.50
Other Heads	150.24	170.78	177.23
Gross Tax Revenue	7882.79	8080.93	8878.92 +142.11*
Less—States' Share of Taxes and Duties	1625.61	1689.23	1789.61 +12.06*
Union Excise Duties	969.09	1027.38	1091.70 +15.56*
Income Tax	648.78	652.22	688.30 —350*
Estate Duty	7.74	9.63	9.61
Net Tax Revenue	6257.18	6391.70	7089.31 +130.05*
B. Non-Tax Revenue			
Interest Receipts	1056.43	1109.93	1223.57
Dividends and Profits	225.57	234.80	260.70
Other Non-Tax Revenue	680.30	770.59	850.28
Total Non-Tax Revenue	1662.30	2115.32	2334.55
Total Revenue Receipts	8219.48	8507.02	9423.86 +130.05*

*Effect of budget proposals,

Details of Revenue Disbursements

(In crores of rupees)

	1976-77 Budget	1976-77 Revised	1977-78 Budget
1. General Services	4510.39	4698.10	5080.00
Organs of State	90.68	82.51	70.00
Fiscal Services	279.49	324.01	330.00
Interest Payments	1351.86	1390.11	1600.00
Administrative Services	361.06	393.20	400.00
Pensions and Misc. General Services	141.67	133.81	190.00
Defence Services (net)	2285.63	2374.46	2470.00
2. Social & Community Services	577.71	622.07	710.00
3. Economic Services	1168.66	1525.19	1770.00
General Economic Services	252.72	352.67	380.00
Agriculture and Allied Services	447.77	719.09	790.00
Industry and Minerals	262.78	254.71	380.00
Water and Power Development	106.33	92.27	100.00
Transport and Communications	99.06	106.45	100.00
4. Grants-in-aid and Contributions etc.	1432.86	1708.49	1910.00
Grants-in-aid to State and Union Territory Governments	1367.27	1642.71	1840.00
Aid to Other Countries	49.51	48.87	50.00
Other Grants & Contributions	16.08	16.91	10.00
Total Revenue Disbursements	7689.62	8553.85	9480.00

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Regd. Office : UDUPI

Administrative Office : Mangalore

N. N. Pai
Chairman

Details of Capital Receipts

(In crores of rupees)

	1976-77 Budget	1976-77 Revised	1977-78 Budget
Market Loans	535.06	848.69	999.75
Gross Borrowings	810.00	1123.63*	1129.00
Less—Repayments	274.94	274.94	129.25
External Loans	814.85	733.89	894.03
Gross Borrowings	1206.14	1107.65	1294.58
Less—Repayments	391.29	373.76	400.55
Recovery of Loans and Advances	1497.00	1590.31	1803.18
State and Union Territory Governments	730.00	790.31	958.18
Others	767.00	800.00	845.00
Small Savings	390.50	410.00	425.00
Provident Funds	190.67	190.38	267.57
Special Deposits of Non-Government Provident Funds	100.00	150.00	250.00
Other Receipts	894.43	1328.04	1302.60@
Total—Capital Receipts	4422.51	5251.31	5942.13

* Excludes Rs. 100 crores of ad hoc treasury bills converted into dated securities.

@ Includes borrowings of Rs. 800 crores against drawal of foreign exchange reserves and Rs. 130 crores against accretions under the compulsory deposit schemes.

Details of Capital Disbursements

(In crores of rupees)

	1976-77 Budget	1976-77 Revised	1977-78 Budget
1. General Services	280.44	330.36	518.62
Defence Services	258.37	240.54	275.27
Other General Services	22.07	89.82	243.35
2. Social and Community Services	93.29	90.15	117.14
3. Economic Services	1515.52	1582.47	1644.39
General Economic Services	27.21	36.77	49.39
Agriculture and Allied Services	26.54	98.69	—209.83*
Industry and Minerals	900.68	922.06	1131.76
Water and Power Development	137.84	120.29	187.19
Transport and Communication (Other than Railways and Posts and Telegraphs)	149.82	129.20	138.58
Railways	259.50	258.70	304.95
Posts and Telegraphs	13.95	16.76	42.35
4. Loans and Advances	3390.77	3626.52	3800.75
Loans and Advances to State and Union Territory Governments	1435.75	1503.36	1795.78
Loans for Social and Community Services	20.51	24.07	24.14
Loans for Economic Services	1512.46	1765.41	1668.31
Advances to Foreign Governments	374.90	257.70	252.22
Other loans	47.15	75.98	29.30
Total Capital Disbursements	5280.04	5629.50	6080.90

*After taking into account recovery of Rs. 250 crores from the Food Corporation of India towards value of stock of fertilisers transferred to it on 1.3.1976.

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Kerala State Lotteries
Trivandrum
Kerala

Resources Transferred to State and Union Territory Governments

(In crores of rupees)

	1976-77 Budget	1976-77 Revised	1977-78 Budget
1. States' Share of Taxes & Duties	1626	1689	1802
Union Excise Duties	969	1027	1107
Income Tax	649	652	685
Estate Duty	8	10	10
2. Statutory and Other Transfers	734	729	957
Grants	582	579	655
Loans	152	150	302
3. Assistance for Development			
Outside Plan	454	583	508
Grants	77	157	108
Loans	377	426	400
4. Assistance for State and Union Territory Plans	1258	1386	1573*
Grants	450	564	623
Loans	808	822	950
5. Assistance for Central & Centrally Sponsored Plan Schemes	357	447	600
Grants	258	342	455
Loans	99	105	145
6. Total Grants and Loans (2+3+4+5)	2803	3145	3638
Grants	1367	1642	1841
Loans	1436	1503	1797
7. Less Recovery of Loans and Advances	730	790	958
8. Net Resources Transferred to State and Union Territory Governments (1+6-7)	3699	4044	4482

N.B.—The Union Territories included in the above statement are those which have legislatures.

* In addition, in the Budget for 1977-78 Rs 114 crores are provided for Plan Outlay of Union Territories without legislature, Rs 15 crores for Plan Schemes of the North Eastern Council and Rs 110 crores for Rural Electrification Corporation. Thus, the total provision in the Budget for 1977-78 for assistance towards State and Union Territory Plans amounts to Rs 1812 crores.

Plan Outlay

(In crores of rupees)

	1976-77	1977-78
1. Central Plan	3347	3347
2. Central Assistance for State Plans	1294	1294
3. Union Territory Plan Provision in the Budget	118	118
4. Total Plan Provision in the Budget	4759	4759
5. Extra Budgetary Resources for Central Plan	743	743
6. Total Central Plan (1+5)	4090	4090
7. Central Plan Provision in the Budget		
General Services	3	3
Social and Community Services	428	428
Economic Services:		
General Economic Services	72	72
Agriculture and Allied Services	295	295
Industry and Minerals	1800	1800
Water and Power Development	152	152
Transport and Communications	597	597
	3347	3347

† Excludes Rs 26 crores for agricultural credit co-operation and Rs eight crores for integrated rural development programme provided under General Economic Services.

* Excludes Rs 110 crores for Rural Electrification Corporation provided as part of Central assistance for State Plans.

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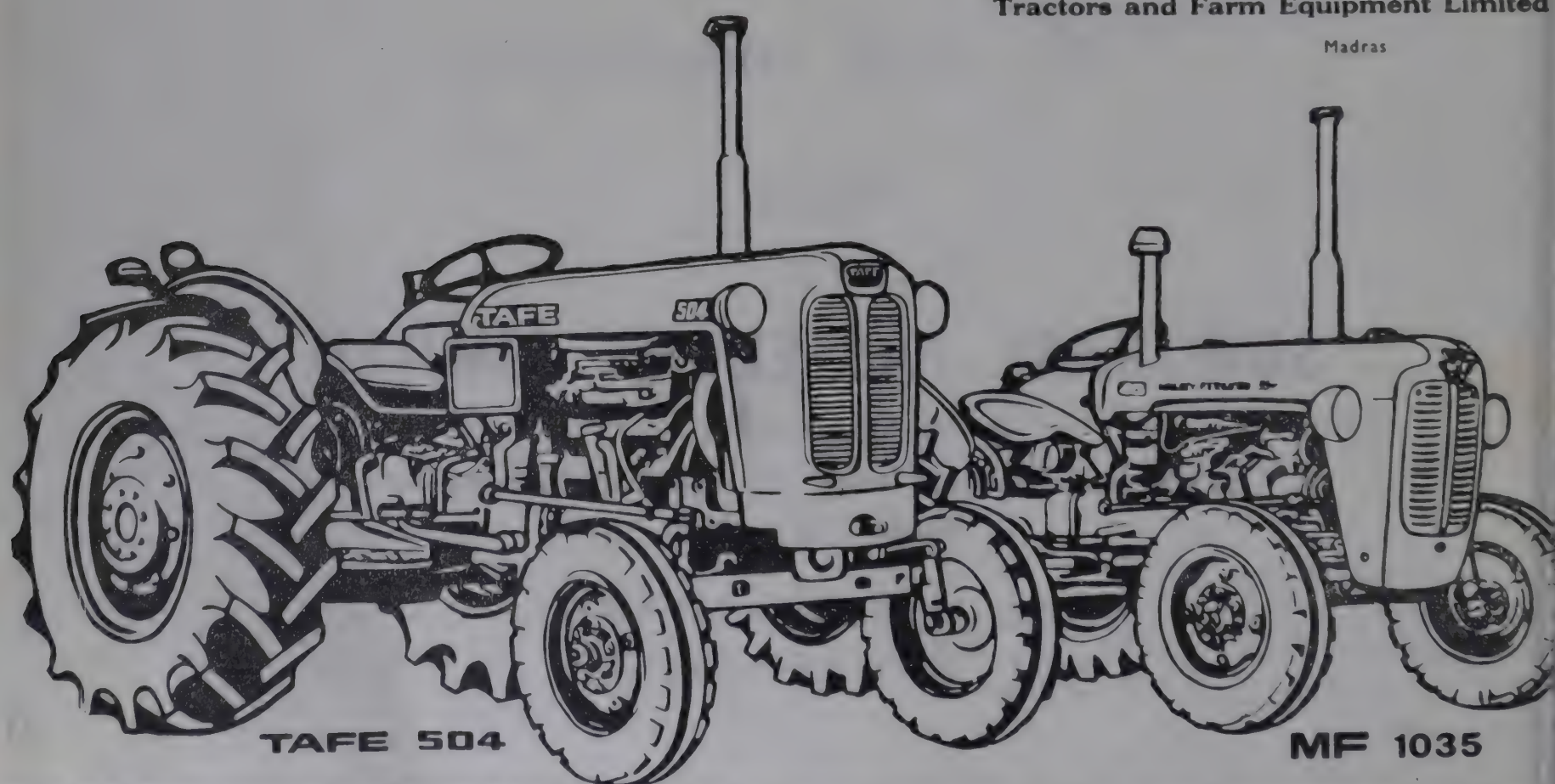
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Budget Estimates 1977-78

Receipts next year, net of states' share of taxes and duties, estimated at Rs 15496 crores, and expenditure at Rs 15568 crores, leaving a deficit of Rs 72 crores.

Gross tax revenue is estimated at Rs 9021 crores. The states' share of taxes and duties will be Rs 1802 crores.

Thus, the net tax revenue of the central government will be Rs 7219 crores comprising union excise duties Rs 3501 crores, customs Rs 1730 crores, corporation tax Rs 1298 crores, income tax Rs 353 crores, and other taxes and duties Rs 337 crores.

Non-tax revenue including interest and dividend receipts will be Rs 2335 crores. Market loans are estimated at Rs 1000 crores, external loans Rs 894 crores and loan repayments Rs 1803 crores. Small savings and provident fund collections will be Rs 693 crores. Other capital receipts are estimated at Rs 1552 crores.

Total estimated expenditure of Rs 15568 crores comprises developmental outlay of Rs 8862 crores (57 per cent), Defence outlay of Rs 2752 crores, interest payments of Rs 1600 crores, grants and other transfers to state and union territory governments of Rs 957 crores and other expenditure of Rs 1397 crores.

Developmental outlay of Rs 8862 crores comprises Rs 5314

crores on economic services, Rs 854 crores on social and community services and Rs 2682 crores on assistance to state and union territory governments for development purposes as also Rs 12 crores of Plan expenditure included under general services. Of this, Rs 5790 crores will be under the Plan and Rs 3072 crores outside the Plan. Plan provisions include Rs 3978 crores for central Plan, Rs 1645 crores for central assistance for state plan and Rs 167 crores for union territory Plan. The central Plan provision includes substantial allocations to agriculture (Rs 525 crores), industry and minerals (Rs 1939 crores), water and power development (Rs 210 crores, excluding Rs 110 crores for the Rural Electrification Corporation programmes in the state sector), transport and communications (Rs 651 crores) and social and community services (Rs 597 crores).

Other expenditure of Rs 1397 crores which constitutes only nine per cent of the total expenditure includes organs of state (Rs 77 crores), principal taxes collection charges (Rs 110 crores), currency and coinage (Rs 71 crores), subscription to IMF (Rs 208 crores), police (Rs 224 crores), other administrative services (Rs 186 crores), pensions (Rs 42 crores), interest on compulsory deposits (Rs 122 crores), aid to other countries (Rs 82 crores) and miscellaneous loans, including loans to Government servants (Rs 59 crores).

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(Government of India, Ministry of Commerce)

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Finance (No. 2) Bill, 1977 :

proposals explained

The text of the official memorandum explaining the provisions of the Finance Bill is given below:

THE PROVISIONS in the Finance (No. 2) Bill, 1977 in the sphere of direct taxes relate to the following matters:—

(i) Prescribing the rates of income-tax (including surcharge thereon) on incomes liable to tax for the assessment year 1977-78; the rates at which income-tax will be deductible at source during the financial year 1977-78 from interest (including interest on securities), dividends, salaries, insurance commission, winnings from lotteries and crossword puzzles and other categories of income liable to such deduction under the Income-tax Act; and the rates for computation of "advance tax" and charging of income-tax on current incomes in certain cases for the financial year 1977-78.

(ii) Amendment of the Income-tax Act, 1961 with a view to providing incentives for savings and investment; encouraging rural development programmes and the setting up of small-scale industrial undertakings in rural areas; providing tax relief in certain cases; strengthening the appellate machinery and a few other matters.

(iii) Amendment of the Wealth-tax Act, 1957 with a view to increasing the rates of wealth-tax and strengthening the appellate machinery.

(iv) Amendment of the Gift-tax Act, 1958, the Companies

(Profits) Surtax Act, 1964 and the Interest-tax Act, 1974 with a view to strengthening the appellate machinery.

(v) Amendment of the Khadi & Village Industries Commission Act, 1956 so as to exempt the Khadi and Village Industries Commission from income-tax.

(vi) Amendment of the Finance Act, 1973 so as to extend the period of exemption from tax of the Credit Guarantee Corporation of India Limited.

(vii) Amendment of the Compulsory Deposit Scheme (Income-tax Payers) Act, 1974 with a view to extending the requirement of making compulsory deposits for another two years and exempting persons over the age of 70 from the requirement of making such deposits.

(viii) Amendment of the Oil Refinery (Development) Act, 1974 for purposes of exempting the Oil Industry Development Board from income-tax.

(ix) Amendment of the Voluntary Disclosure of Income and Wealth Act, 1976 so as to extend the time for payment of tax and for making investment in notified government securities by persons who have made declarations under the said Act.

2. Subject to certain exceptions which have been indicated

while dealing with the relevant provisions, the Bill follows the principle (adopted since 1967) that changes in the rates of tax, as also in the other provisions of the tax laws, should

ordinarily be made operatively prospectively in relation to current incomes and not in relation to incomes of the previous year. The substance of the main provisions in the Bill relating to direct taxes is explained in the following paragraphs.

Income Tax

I. Rates of income-tax in respect of incomes liable to tax for the assessment year 1977-78

3. In respect of incomes of all categories of taxpayers (corporate as well as non-corporate) liable to tax for the assessment year 1977-78, the rates of income-tax (including surcharge thereon) have been specified in Part I of the First Schedule to the Bill. These rates are the same as those laid down in Part III of the First Schedule to the Finance Act, 1976 for the purposes of computation of "advance tax", deduction of tax at source from "salaries" and retirement annuities payable to partners of registered firms engaged in specified professions and computation of the tax payable in certain special cases, during the financial year 1976-77. These rates had earlier been prescribed for the assessment year 1977-78 under the Finance Act, 1977, which applied the relevant provisions of the Finance Act, 1976 to the financial year 1977-78. Where a company has made a deposit

during the financial year 1977 with the Industrial Development Bank of India under the Companies Deposits (Surcharge on Income-tax) Scheme, 1977 framed by the central government under section 2(8) of the Finance Act, 1976, the amount so deposited shall be set off against the amount of surcharge payable by it for the assessment year 1977-78.

II. Rates for deduction of tax at source during the financial year 1977-78 from incomes other than "Salaries" and retirement annuities

4. The rates for deduction of tax at source during the financial year 1977-78 from incomes other than "salaries" and retirement annuities payable to partners of registered firms engaged in specified professions have been specified in Part II of the First Schedule to the Bill. These rates apply to income by way of interest on securities, other categories of interest, dividends, insurance commission, winnings from lotteries and crossword puzzles

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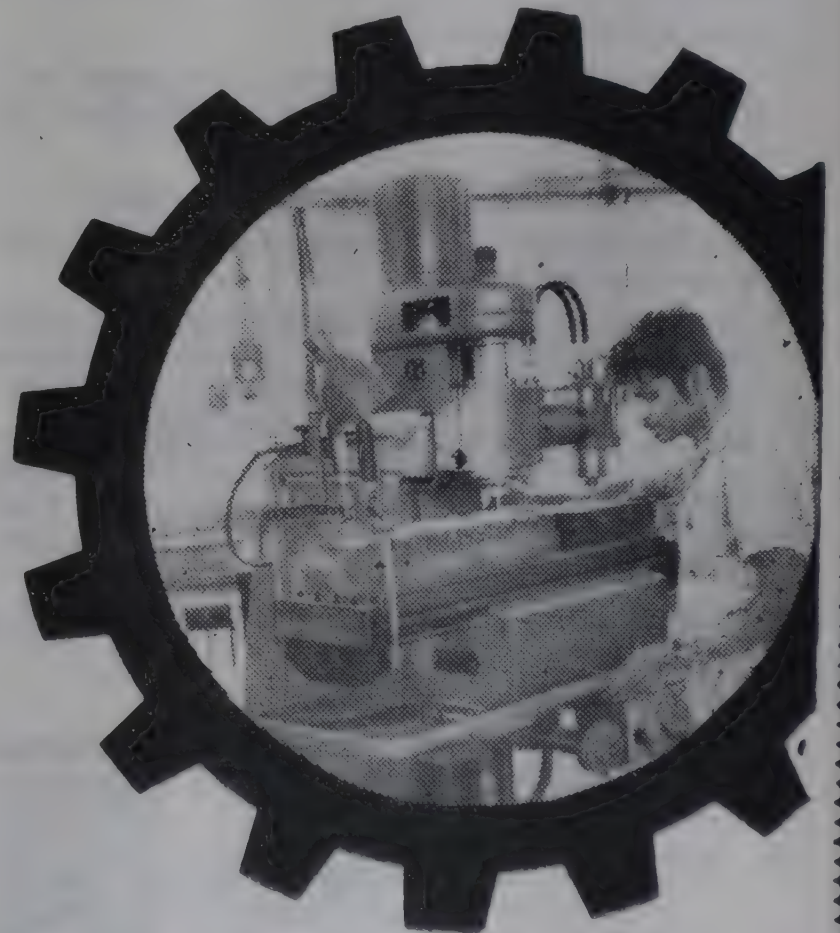
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- * Exemption from payment of electricity duty for 5 years.
- * Exemption from Octroi and terminal taxes.
- * Subsidy for 50 per cent of the cost of feasibility reports.
- * Subsidy for generating sets.
- * 15 per cent subsidy on capital investment in 3 Backward Districts of Hoshiarpur, Bhatinda and Sangrur.
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- * Special Incentives for exports.
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Director of Industries, Punjab.

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non-salary income of non-residents. As explained later in this memorandum, the rate of surcharge on income-tax in the case of non-corporate taxpayers is proposed to be increased from 10 per cent to 20 per cent of the income-tax. Consequently, the rates for deduction of tax at source during the financial year 1977-78 are higher from the rates specified in Part II of the First Schedule to the Finance Act, 1976 for purposes of deduction of tax at source from such incomes during the financial year 1976-77 in certain respects, as explained in paragraphs 5 to 7 below.

Payment to residents other than companies—In the case of income by way of winnings from lotteries and crossword puzzles payable to resident taxpayers (other than companies) during the financial year 1977-78, tax will be deductible at the rate of 34.5 per cent, made up of basic income-tax of 30 per cent and surcharge of 4.5 per cent (being 15 per cent of the income-tax). This is higher than the rate at which tax was deductible from such income during the financial year 1976-77 by 1.5 per cent.

In the case of income by way of interest on securities (being interest on a tax-free security) or dividends payable to resident taxpayers (other than companies) during the financial year 1977-78, tax will be deductible at the rate of 23 per cent, i.e., the same as at which tax was deductible at source from such incomes during the financial year 1976-77. However, the rate of 23 per cent will be made up of basic income-tax of 20 per cent and surcharge of three per cent (being 15 per cent of the income-tax), as against the basic income-tax of 21 per cent and

surcharge of two per cent in force during the financial year 1976-77. It will be observed that while the rate of surcharge deductible at source has been increased from 10 per cent to 15 per cent of the income-tax, the rate at which income-tax will be deductible at source has been reduced from 21 per cent to 20 per cent. This has been done in order to maintain the rate of tax deductible at source from dividends in the case of resident non-corporate taxpayers at the same level as in the case of domestic companies, i.e., 23 per cent.

7. Payments to non-residents other than companies—In the case of income (other than interest on a tax-free security) payable to a non-resident (other than a company) during the financial year 1977-78, tax will be deductible at the minimum rate of 34.5 per cent, made up of income-tax of 30 per cent and surcharge of 4.5 per cent (being 15 per cent of the income-tax). In respect of interest on a tax-free security payable to non-corporate non-residents, the rate for deduction will be 17.25 per cent, made up of income-tax of 15 per cent and surcharge of 2.25 per cent (being 15 per cent of the income-tax).

8. Payment of copyright royalties to foreign companies—As explained later in this memorandum, the Income-tax Act is proposed to be amended to provide that the requirement, that the agreement for payment of royalty between the foreign company and the Indian concern should be approved by the central government, will not apply in cases where the royalty is paid to the foreign company in consideration of the transfer of all or any of the rights (including the granting of a

licence) in respect of copyright in any book on any educational, scientific or technical subject, if such book is on a subject the books on which are permitted, according to the Import Trade Control Policy of the Government of India for the financial year 1977-78, to be imported into India under an Open General Licence. In view thereof, the rate for deduction of tax at source from such income received by foreign companies has been specified at the rate at which such income will be chargeable to tax from the assessment year 1978-79.

III. Rates for deduction of tax at source from "Salaries", computation of "advance tax" and charging of income-tax in special cases during the financial year 1977-78

9. The rates for deduction of tax at source from "Salaries"

in the case of individuals during the financial year 1977-78, and also for computation of "advance tax" payable during that year in the case of all categories of taxpayers, have been specified in Part III of the First Schedule to the Bill. These rates are also applicable for deduction of tax at source during the financial year 1977-78 from retirement annuities payable to partners of registered firms engaged in certain professions (such as chartered accountants, solicitors, lawyers, etc.) and for charging income-tax during 1977-78 on current incomes in special cases where accelerated assessments have to be made, e.g., provisional assessment of shipping profits arising in India to non-residents, assessment of persons leaving India for good during the financial year 1977-78, assessment of persons who are

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to transfer property to tax, etc. These rates are the same as the rates specified in Part I of the First Schedule to the assessment of incomes to tax for the assessment year 1977-78, except for the modifications explained in the following paragraphs.

Individuals, Hindu Undivided Families, unregistered firms, etc., having no agricultural income

Raising of exemption limit—The exemption limit in the case of individuals, Hindu Undivided Families, etc., is proposed to be raised from Rs 8,000 to Rs 10,000. Although the rate schedule including the *nil* rate slab of income up to Rs 8,000 is not being changed, a provision is being made to the effect that income-tax shall be payable in the case of individuals, Hindu Undivided Families, etc., where the total income of the taxpayer does not exceed Rs 10,000. Further, where the total income exceeds the exemption limit of Rs 10,000 by a small margin, the income-tax payable will be the lower of—(a) the tax (excluding surcharge) calculated in accordance

with the rate schedule; or (b) an amount equal to 70 per cent of the amount by which the total income exceeds the exemption limit of Rs 10,000. This is illustrated in the table below.

It will be observed from the table that on a total income of Rs 10,540, the amount calculated under the marginal provision as explained (column 3) is lower than the amount arrived at by applying the rate laid down in the rate schedule (column 2). On the other hand, when the total income amounts to Rs 10,550, income-tax at the rate laid down in the rate schedule is lower than that calculated by applying the marginal provision. Hence, in the case of an individual, the marginal provision ceases to be applicable when the total income exceeds Rs 10,540. In the case of Hindu Undivided Families, having one or more members with independent total income exceeding the exemption limit, the marginal provision will cease to apply when the total income of the Hindu Undivided Family exceeds Rs 10,690.

11. Increase in the rate of

INDIVIDUALS

Income	Income-tax calculated at the rate laid down in the rate schedule	Income-tax at 70 per cent of the excess over Rs 10,000
(1)	(2)	(3)
Rs	Rs	Rs
10,100	315	70
10,200	330	140
10,300	345	210
10,400	360	280
10,450	368	315
10,500	375	350
10,540	381	378
10,550	383	385

surcharge—The rate of surcharge in income-tax in the case of all categories of non-corporate taxpayers, including individuals, Hindu Undivided Families, etc., is proposed to be raised from 10 per cent to 15 per cent of the income-tax.

12. The table below shows at selected levels of income of an individual, the comparative incidence of tax (including surcharge) at (a) the rates applicable during the financial year 1976-77 for purposes of computation of "advance tax" and deduction of tax at source from "salaries" (which are being made applicable to incomes assessable for the assessment year 1977-78); and (b) the rates proposed in the Bill for

computation of "advance tax" and deduction of tax at source from "salaries" during the financial year 1977-78.

Individuals, Hindu Undivided Families, unregistered firms etc., having agricultural income

13. The annual Finance Acts from 1973 onwards have provided that in the case of individuals, Hindu Undivided Families, unregistered firms, etc., the net agricultural income would be taken into account for determining the rate of income-tax to be applied to the non-agricultural income of the taxpayer. The net agricultural income is required to be taken into account only in cases where the non-agricultural in-

Comparative Incidence of Tax at Selected Levels of Income in the Case of Individuals

Income	Tax (including surcharge at the rate of 10 per cent) at the existing rates	Tax (including surcharge at the proposed rate of 15 per cent) with exemption limit raised to Rs 10,000	Increase/reduction in tax liability
Rs	Rs	Rs	Rs
8,000	Nil	Nil	Nil
10,000	330	Nil	(—) 330
11,000	495	518	(+) 23
12,000	660	690	(+) 30
12,500	743	776	(+) 33
15,000	1,155	1,208	(+) 53
20,000	2,145	2,243	(+) 98
25,000	3,520	3,680	(+) 160
40,000	9,570	10,005	(+) 435
50,000	13,970	14,605	(+) 635
60,000	19,470	20,355	(+) 885
70,000	24,970	26,105	(+) 1,135
80,000	31,020	32,430	(+) 1,410
90,000	37,070	38,755	(+) 1,685
1,00,000	43,120	45,080	(+) 1,960
1,50,000	76,120	79,580	(+) 3,460
2,00,000	1,09,120	1,14,080	(+) 4,960
2,50,000	1,42,120	1,48,580	(+) 6,460
3,00,000	1,75,120	1,83,080	(+) 7,960
5,00,000	3,07,120	3,21,080	(+) 13,960
10,00,000	6,37,120	6,66,080	(+) 28,960

come of the taxpayer exceeds the exemption limit. As the exemption limit is proposed to be raised from Rs 8,000 to Rs 10,000, the net agricultural income will now be taken into account for the purposes of charging income-tax only if the non-agricultural income of the person exceeds Rs 10,000.

14. Under the scheme of partially integrated taxation of non-agricultural income with income derived from agriculture, both the agricultural and non-agricultural components of the taxpayer's income are aggregated and the tax on the non-agricultural component is levied as if the latter were placed on the top slabs of the aggregate income. For this purpose, income-tax is required to be calculated in the following manner:

(i) The agricultural and non-agricultural components of the

taxpayer's income are aggregated and income-tax is calculated on the aggregate as if such aggregate were the total income.

(ii) Income-tax is calculated on the net agricultural income as increased by an amount of Rs 8,000 (i.e., the first slab of income on which tax is charged at *nil* rate) as if such increased net agricultural income were the total income.

(iii) The amount by which the income-tax calculated under (i) exceeds the amount calculated under (ii) is the income-tax payable by the taxpayer on his total income.

15. In consequence of the raising of the exemption limit to Rs 10,000 concurrently with maintaining the *nil* rate slab at the existing level of Rs 8,000, as explained in paragraph 10 above, the following modifications are proposed to be made

in the provisions for calculation of income-tax in cases where the taxpayer has agricultural income in addition to total income:

(a) The marginal provision referred to in paragraph 10, namely, that the income-tax payable will not exceed seventy per cent of the amount by which the total income exceeds Rs 10,000, will not apply in calculating income-tax under (i) and (ii) of paragraph 14, but would apply only in relation to the amount as finally determined.

(b) Income-tax will be calculated under (ii) aforesaid (i.e., on the agricultural income as increased by an amount of Rs 8,000) as if the exemption limit was Rs 8,000 and not Rs 10,000.

[In cases where the net agricultural income of the taxpayer does not exceed Rs 2,000,

such agricultural income increased by Rs 8,000 will exceed Rs 10,000. In view of the raising of the exemption limit to Rs 10,000, no income-tax will be payable on income under (ii), with the result that the taxpayer will not be entitled to any deduction from the tax as computed under (i) on the total income as increased by the net agricultural income. In the result, the net agricultural income of the taxpayer would become chargeable to income-tax in all cases. The modification referred to in (b) is being proposed in order to avoid this position.

(c) The income-tax calculated under (i) and (ii) will not be increased by surcharge on income-tax.

(d) The income-tax as determined under (iii) shall, in no case, exceed 70 per cent of

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by which the total exceeds Rs 10,000.

The amount of income so determined shall be used by a surcharge at the rate of 15 per cent, of such income-tax and the amount so added shall be the income-tax payable by the taxpayer on non-agricultural income.

The net agricultural income for the purposes of the above provisions is to be computed in accordance with the rules contained in Part IV of the First Schedule to the Bill. These provisions are the same as those contained in Part IV of the First Schedule to the Finance Act, 1976, with the modification that the unabsorbed loss in agriculture of the previous year relevant to the assessment year 1976-77 will be set-off against the agricultural income for the previous year relevant to the assessment year 1977-78, and the unabsorbed loss in respect of the previous year relevant to the assessment year 1977-78 will be set-off in determining the net agricultural income for the purposes of payment of "advance tax" during the financial year 1977-78.

Co-operative societies and local authorities—In the case of co-operative societies and local authorities, the rates of income-tax specified respectively in Paragraphs B and D of Part III of the First Schedule to the Bill for purposes of computation of advance tax payable by them during the financial year 1977-78 are the same as the rates of income-tax specified, respectively, in Paragraphs B and D of Part I of the First Schedule for incomes assessable for the assessment year 1977-78. However, the rate of surcharge in these cases (as in the case of all

other non-corporate taxpayers) is being increased from 10 per cent to 15 per cent of the basic income-tax.

18. Registered firms—In the case of registered firms, the rates of income-tax specified in Paragraph C of Part III of the First Schedule to the Bill for the purpose of computation of "advance tax" payable by them during the financial year 1977-78 are the same as the rates of income-tax specified in Paragraph C of Part I of the First Schedule for incomes assessable for the assessment year 1977-78.

However, as in the case of other non-corporate taxpayers, the rate of surcharge on income-tax in the case of registered firms is being increased from 10 per cent to 15 per cent of the basic income-tax.

19. Companies—The rates of income-tax including surcharge in the case of companies, specified in Paragraph E of Part III of the First Schedule to the Bill, for the purpose of computation of advance tax payable by them during the financial year 1977-78 are the same as the rates specified in Paragraph E of Part I of the First Schedule for incomes assessable for the assessment year 1977-78.

20. Under a provision made by the Finance Act, 1976, companies could, in lieu of payment of surcharge on income-tax, make, before the last instalment of advance tax payable during the financial year 1976-77, a deposit with the Industrial Development Bank of India under a scheme framed by the central government. The option for making deposits in lieu of payment of surcharge is not being provided under the Bill.

[Clause 2 and the First Schedule]

IV. Proposed Amendments to the Income-Tax Act

Measures for providing incentives for savings and investment

21. Investment allowance—

Under the scheme of investment allowance introduced by the Finance Act, 1976, a deduction on account of investment allowance is allowed in the computation of taxable profits, at the rate of 25 per cent of the actual cost of the following, namely :

(i) New ships or new aircraft acquired by taxpayers engaged in the business of operation of ships or aircraft.

(ii) New machinery or plant installed for the purposes of business of generation or distribution of electricity or any other form of power.

(iii) New machinery or plant installed for the purposes of business of construction, manufacture or production of any one or more of the articles or things specified in the list in the Ninth Schedule to the Income-tax Act.

(iv) New machinery or plant installed in a small-scale industrial undertaking for the purposes of business of manufacture or production of any other articles or things.

22. The scheme of investment allowance is proposed to be modified and its scope extended to machinery or plant installed for the purposes of business of construction, manufacture or production of all articles and things, except certain articles and things of low priority specified in the list in the new Eleventh Schedule proposed to be inserted in the

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Income-tax Act by clause 28 of the Bill. The Annex to this memorandum shows the list of articles or things specified in the new Eleventh Schedule.

The central government is being empowered to add, by notification in the Official Gazette, any article or thing to the list specified in the Eleventh Schedule. Any such addition to the list in the Eleventh Schedule shall have effect in relation to any machinery or plant installed for the purposes of business of construction, manufacture or production of such article or thing only where the machinery or plant is installed one year after the date of publication of the notification.

23. Sometimes, a machinery or plant installed and used *mainly* for the purposes of business of construction, manufacture or production of an article or thing not specified in

the list in the Eleventh Schedule may be *partly* used for the purposes of business of construction, manufacture or production of any article or thing specified in the list in the Eleventh Schedule. A specific provision is being made in the law to provide that investment allowance will not be denied in such cases merely on the ground that such machinery or plant has also been used for the purposes of business of construction, manufacture or production of an article or thing specified in the list in the new Eleventh Schedule.

24. With a view to promoting scientific and technological self-reliance, it is proposed to provide an incentive to the users of know-how developed in our country by granting investment allowance at the higher rate of 35 per cent in respect of machinery or plant installed after 30th June, 1977

but before 1st April, 1982, for the purposes of business of manufacture or production of any article or thing which is manufactured or produced by using any technology (including any process) or other know-how developed in, or which is invented by, a laboratory owned or financed by the government or a laboratory owned by a public sector company or a university. [A laboratory will be regarded as financed by the government if it is owned by any body (including a society registered under the Societies Registration Act, 1860) and financed wholly or mainly by the government.] The concession by way of investment allowance at the higher rate of 35 per cent will be available only if the following conditions are fulfilled:—

(i) The right to manufacture or produce the article or thing or use the technology (includ-

ing any process) or other know-how has been acquired by the tax-payer from the owner of such laboratory or any person deriving title from such laboratory.

(ii) The taxpayer furnishes along with the return of income for the assessment year for which the deduction is claimed, a certificate prescribed by the authority specified in rules framed by the Central Board of Revenue (in the case of Taxes) that such article or thing is manufactured or produced by using technology (including any process) or other know-how developed in, or which is invented by, a laboratory owned wholly or mainly by the government or a laboratory owned by a public sector company or a university.

(iii) The machinery or plant is not used by the taxpayer for the purpose of business of manufacture or production

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any article or thing specified in the list in the Eleventh Schedule.

25. These amendments will take effect from 1st April, 1978 and will accordingly apply in relation to the assessment year 1978-79 and subsequent years.

[Clauses 9, 28 and 29(2)(f)]

26. Exemption of closely-held industrial companies from compulsory distribution of dividends
Closely-held domestic companies are required (subject to certain exceptions) to distribute "statutory percentage" of their "distributable income" within a period of twelve months immediately following the expiry of the accounting year. If the distribution of dividends falls short of the required amount or if no dividends are distributed within a period of twelve months from the end of the accounting year, the company is liable to pay additional income-tax under section 104 of the Income-tax Act.

27. The bill seeks to exempt closely-held companies whose business consists *mainly* in the construction of ships or in the manufacture or processing of goods or in mining or in the generation or distribution of electricity or any other form of power from the requirement of compulsory distribution of dividends up to the statutory percentage of their distributable income. For the purposes of this provision, the business of a company shall be deemed to consist mainly in the construction of ships or in the manufacture or processing of goods or in mining or in the generation or distribution of electricity or any other form of power, if the profits and gains attributable to any of the aforesaid activities included in

the "gross total income" of the company for the relevant year are not less than 51 per cent of such income. In the case of a company which is not *mainly* engaged in such activities but only a *part* of whose gross total income consists of profits and gains attri-

butable to the aforesaid activities, the requirement of compulsory distribution of dividends shall stand waived in relation to the distributable income of the company attributable to the said activities.

28. The proposed amendments will take effect from 1st

April, 1978 and will accordingly apply in relation to the assessment year 1978-79 and subsequent years.

[Clauses 20 and 21]

29. Higher deduction in respect of profits transferred to special reserve in the case



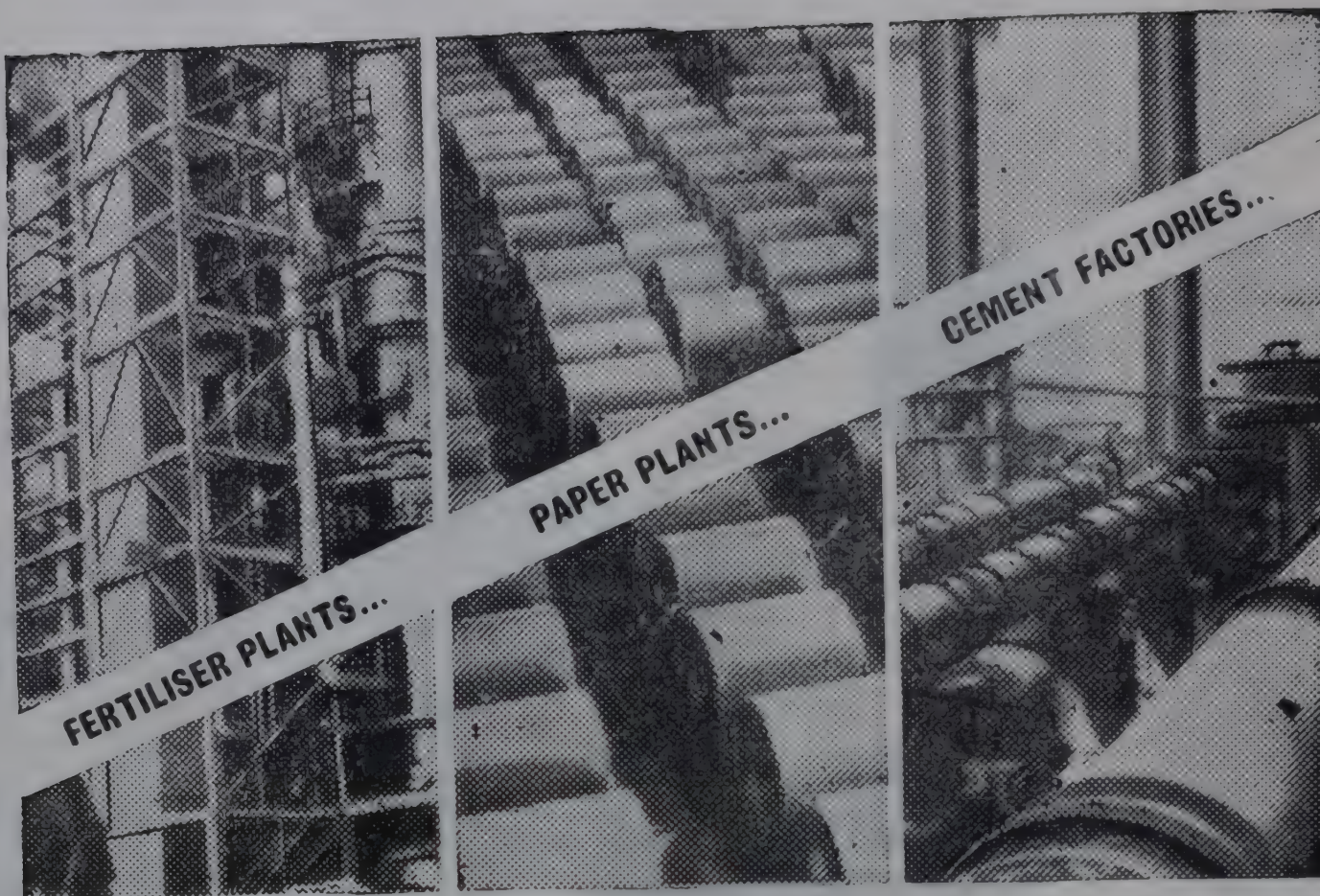
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1. The proposed amend-
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dingly apply in relation to the
 assessment year 1978-79 and
 subsequent years.

[Clause 11]

32 Exemption of "long-term capital gains" in cases where sale proceeds arising on transfer are invested or deposited in specified financial assets—Cap-ital gains arising from the trans-fer of a long-term capital asset are proposed to be exempted from income-tax in cases where the full value of the considera-tion received or accruing from the transfer is invested or depo-sited by the taxpayer in speci-fied financial assets within six months after the date of such transfer. Where only a part of the consideration is so invest-ed or deposited, a proportion-ate part of the capital gains will be exempted from income-tax.

33. The specified financial assets referred to in the preced-ing paragraph are the follow-ing :—

(i) securities of the central government or a state govern-ment;

(ii) savings certificates as defined in section 2(c) of the government Savings Certifi-cates Act, 1959;

(iii) units in the Unit Trust of India;

(iv) debentures specified by the central government for the purposes of section 80L (1)(ii) of the Income-tax Act;

(v) shares in any Indian company which are issued to the public or are listed in a recognised stock exchange in India in accordance with the Securities Contracts (Regula-tion) Act, 1956 and any rules made thereunder;

(vi) deposits for a period of not less than three years with

the State Bank of India or any of its subsidiaries or any nationalised bank or any co-operative society engaged in carrying on the business of banking (including a co-operative land mortgage bank or a cooperative land develop-ment bank).

34. The exemption will be forfeited if the taxpayer trans-fers the new financial asset within three years from the date of its acquisition.

35. A taxpayer may some-times not be in a position to invest or deposit the full value of the consideration received or accruing as a result of the transfer in specified financial assets before the assessment for the assessment year in which the capital gains arising from the transfer are chargeable to tax is taken up by the Income-tax Officer. In such cases,

capital gains arising from the transfer of the asset will have to be included in the assessment of the taxpayer for the relevant assessment year. However, if after the completion of the assessment, but within the spe-cified period of six months, the taxpayer has invested or depo-sited the full value of the consideration, it is but fair that the benefit of the propos-ed tax concession should be allowed to him by amending the assessment order made ear-lier. Accordingly, a provision is being made to the effect that, in such cases, the Income-tax Officer will amend the assess-ment order made by him so as to exclude the amount of capi-tal gains not chargeable to tax in accordance with the propos-ed provision. The period of limitation of four years for amending an assessment order laid down in the Income-tax Act will, in such cases, run from

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the date of the assessment order for the year in which the capital gains arising from the transfer of the old asset are charged to tax.

36. These provisions will take effect from 1st April, 1978 and will accordingly apply in relation to the assessment year 1978-79 and subsequent years.

[Clauses 13, 23 and 29(2)(a)]

37. **Enlarging the scope of "long-term capital gains"** — Any profits or gains arising from the transfer of any capital asset held by a taxpayer for not more than 60 months immediately preceding the date of its transfer are treated as capital gains relating to a "short-term capital asset" and charged to tax as ordinary income. Gains arising from the transfer of a capital asset held by the taxpayer for more than 60 months are treated as "long-

term capital gains" and charged to tax on a concessional basis. As the holding period of 60 months is unduly long and adversely affects the investment climate, the Bill seeks to secure that gains arising from the transfer of any capital asset held by a taxpayer for more than 36 months immediately preceding the date of its transfer are treated as "long-term capital gains" and, therefore, charged to tax on a concessional basis.

38. The proposed amendment will take effect from 1st April, 1978 and will accordingly apply in relation to the assessment year 1978-79 and subsequent years.

Measures for encouraging rural development programmes and the setting up of small-scale industrial undertakings in rural areas

39. Rural development allow-

ance —With a view to encouraging companies to undertake the work of rural welfare and uplift, it is proposed to provide that expenditure incurred by companies after 30th June, 1977 on any programme of rural development will be deducted in computing their taxable profits. The deduction under this provision will be allowed only where the company obtains the prior approval of the prescribed authority (to be specified in the Income-tax Rules made by the Central Board of Direct Taxes) in respect of the programme of rural development undertaken by the company. The company claiming deduction in respect of such expenditure will be required to furnish, along with its return of income for the assessment year for which the deduction is claimed, a statement of such expenditure in a prescribed form duly signed

and verified by a chartered accountant or other qualified accountant, and setting forth such particulars as may be prescribed in the Income-tax Rules.

40. Where the expenditure incurred on the programme of rural development results in the acquisition or creation of any asset, (being building, machinery, plant or furniture) and the company does not divest itself of the ownership of such asset before the end of the relevant year, the expenditure incurred by the company on the acquisition or creation of the asset will be allowed as a deduction. It shall be entitled to depreciation in respect of such asset as if the asset was used by it for the purposes of its business.

41. The expression "programme of rural development"

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include any programme promoting the social and economic welfare of, or the benefit of, the public in any rural area. The expression "rural area" for the purposes of this provision will mean a rural area, other than—

(a) an area which is comprised within the jurisdiction of a municipality or a cantonment board and which has a population of not less than 100 according to the last preceding census of which the relevant figures have been published before the first day of the relevant accounting year;

(b) an area within such distance (not being more than 5 kilometres) from the local limits of any municipality or cantonment board referred to in (a) above, which is specified

by the central government under a notification issued under sub-clause (ii) (B) of the proviso to section 2(1)(c) of the Income-tax Act.

42. This provision will take effect from 1st April, 1978 and will accordingly apply in relation to the assessment year 1978-79 and subsequent years.

[Clause 10]

43. **Tax concession for small-scale industrial undertakings set up in rural areas.**—With a view to providing an incentive for the setting up of small-scale industrial undertakings in rural areas, a new provision is proposed to be made in the Income-tax Act under which all categories of taxpayers will be entitled to a deduction

equal to 20 per cent of the profits derived by them from small-scale industrial undertakings (other than those engaged in mining) set up after 30th June, 1977 in any rural area. The deduction will be allowed in respect of each of the ten assessment years beginning with the assessment year relevant to the previous year in which the industrial undertaking begins to manufacture or produce articles. The expression "rural area" for the purposes of this provision will have the same meaning as explained in paragraph 41 of this memorandum. An industrial undertaking shall be regarded as a small-scale industrial undertaking if the aggregate value of the machinery and plant installed, as on the last day of the previous year, for the purposes of the business

of the undertaking does not exceed Rs 10 lakhs.

44. In order to qualify for the new tax concession, the industrial undertaking will have to fulfil certain conditions which are briefly indicated below :—

(i) The industrial undertaking should not have been formed by the splitting up or reconstruction of a business already in existence.

(ii) The industrial undertaking should not have been formed by the transfer to a new business of machinery or plant previously used for any business.

(iii) The industrial undertaking should employ ten or more workers in a manufac-

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turing process carried on with the aid of power or employ twenty or more workers in a manufacturing process carried on without the aid of power.

45. In the case of taxpayers, other than companies and co-operative societies which are statutorily required to get their accounts audited, the concession will not be available unless the accounts of the industrial undertaking are audited by a chartered accountant or other qualified accountant and the taxpayer furnishes, along with his return of income, the report of such audit in the form to be prescribed in the Income-tax Rules.

46. The following provisions have been made to cover cases where a taxpayer is entitled

to a deduction under the proposed provision, and any one or more of the provisions in Sections 80HH, 80J, 80P and 80QQ of the Income tax Act:—

(i) Where a taxpayer is eligible for a deduction under Section 80HH (relating to deduction in respect of profits and gains from newly established industrial undertakings, etc., in backward areas) as well as under the new provision, in relation to the profits and gains of the *same* industrial undertaking, the deduction in relation to such profits and gains will be allowed only under either of these provisions.

(ii) Where a taxpayer is entitled to a deduction both under the new provision and Section 80J in relation to the

profits and gains of the same industrial undertaking, the deduction under the new provision will be allowed first and the provisions of section 80J will apply to the balance of the income after allowing such deduction.

(iii) Consequential changes have also been made in Sections 80J, 80P and 80QQ of the Income-tax Act in order to provide that the deduction under each of the aforesaid sections will be allowed with reference to the income of the industrial undertaking after allowing, *inter alia*, the deduction under the new provision.

47. These amendments will take effect from 1st April, 1978 and will accordingly apply in relation to the assessment year 1978-79 and subsequent years.

[Clauses 17, 18 and 29(2)(b) to (e)]

48. Relaxation of the provisions relating to carry forward and set off of accumulated business loss and carry forward of unabsorbed depreciation in certain cases of amalgamation—Under the existing provisions of the Income-tax Act, so much of the business loss of a year as cannot be set off against the other income of the taxpayer for that year can be carried forward and set off by him against the profits of the following year from any business carried on by him. If the

loss cannot be wholly so set off, the amount of loss not so set off can be carried forward to the next following year and so on, up to a maximum of eight years. The benefit of carry forward and set off of business

loss is, however, not available unless the business in which the loss was originally suffered is continued to be carried on by the taxpayer. Further, only the taxpayer who incurred the loss has the right to carry forward the same, so that a successor in business cannot claim to carry forward the loss incurred by his predecessor in business. Similarly, if a

business carried on by a taxpayer is taken over by another taxpayer, the unabsorbed depreciation allowance of the previous taxpayer cannot be carried forward by the successor in business and set off against his profits in subsequent years. In view of this position, the past losses and unabsorbed depreciation of a company which merges with another company under a scheme of amalgamation cannot be carried forward by the latter company. Similarly, where a company which merges with another company has absorbed depreciation, the right to carry forward such absorbed depreciation is lost and the amalgamated company cannot claim to carry forward the unabsorbed depreciation of the amalgamated company.

49. In order to facilitate the merger of sick industrial units with sound ones, the aforesaid provisions relating to carry forward and set off of accumulated business loss and carry forward of unabsorbed depreciation are proposed to be relaxed in cases where there has been an "amalgamation" defined in section 2(1A) of the Income-tax Act of a company owning an industrial undertaking with another company and the central government on the recommendation of

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ed authority", is satisfied at the following conditions are fulfilled:

the accumulated loss of the amalgamating company on the last day of the accounting year immediately preceding the accounting year in which the amalgamation was effected exceeds 50 per cent of the aggregate of the paid-up share capital and reserves, of that company as on that day;

the amalgamating company was not, immediately before such amalgamation, financially viable;

the amalgamation was in the public interest; and

such other conditions as the central government may, by notification in the Official Gazette, specify, to ensure that

the benefit under this section is restricted to amalgamations which would facilitate the rehabilitation or revival of the business of the amalgamating company.

Where, on being so satisfied, the central government makes a declaration to that effect, the accumulated loss and the unabsorbed depreciation of the amalgamating company will be deemed to be the loss or, as the case may be, the allowance for depreciation of the amalgamated company for the year in which the amalgamation was effected and the relevant provisions of the Income-tax Act relating to set off and carry forward of loss and allowance for depreciation would apply accordingly. In other words, the amalgamated company

would be entitled to carry forward and set off the accumulated loss and unabsorbed depreciation of the amalgamating company as if it were its own loss or, as the case may be, depreciation for the year in which the amalgamation was effected.

50 The concessions referred to in the preceding paragraph will not be available to the amalgamated company unless the following conditions are fulfilled:

(i) The business of the amalgamating company is carried on by the amalgamated company during the previous year relevant to the assessment year for which such set off or allowance is claimed. In case the business of the amalgamating company is carried on by the amalgamated

company with some modification or reorganisation, to enable the amalgamated company to carry on the business more economically or efficiently, such modification or reorganisation should have been approved by the central government.

(ii) The amalgamated company should furnish, along with its return of income for the assessment year for which such set off is claimed, a certificate from the "specified authority" to the effect that adequate steps have been taken by that company for the rehabilitation or revival of the business of the amalgamating company.

51. For the purposes of the proposed concession, the expression "accumulated loss" would mean so much of the

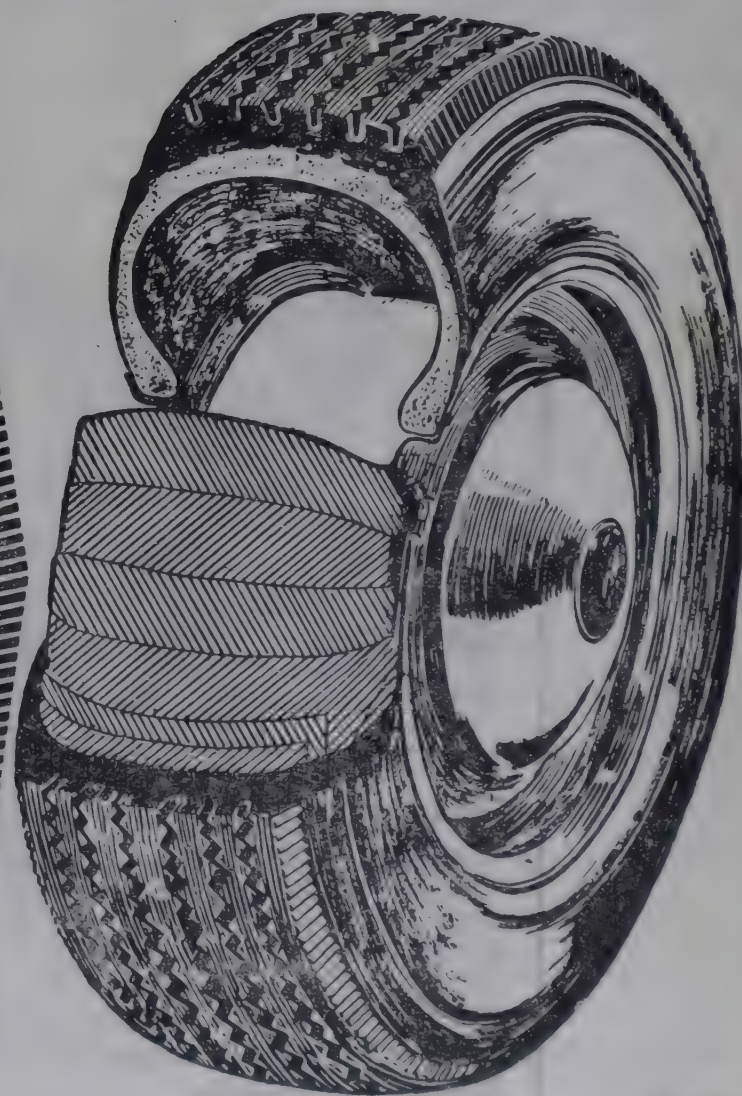
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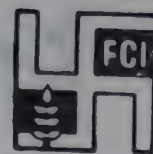
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f the amalgamating company under the head "Profits and gains of business or profession (not being a loss sustained in a speculation business)" and it would have been entitled to carry forward and set off had it not merged with the amalgamated company. The expression "unabsorbed depreciation" would mean so much of the allowance for depreciation of the amalgamated company which it would have been entitled to carry forward under the provisions of the Income-tax Act had it merged with the amalgamated company. The "specified property" for the purposes of this provision would be the same as the central government may, by notification in the Official Gazette, specify.

The proposed provision will take effect from 1st April, 1978 and will accordingly apply in relation to the assessment year 1978-79 and subsequent years.

[Clause 15]

Concessional taxation of copyright royalties in respect of books on scientific, technical and educational subjects, in the case of foreign companies—At present, copyright royalty received by a foreign company from an Indian concern in consideration for the transfer of all or any rights (including granting of a licence) in respect of copyright in any book is charged to tax at the rate of 40 per cent on the gross amount of such royalty in cash where the royalty is paid in pursuance of an agreement entered into on or after 1st April, 1978 and the agreement is approved by the central government. Under the Import Control Policy of the Government of India for April,

1977 to March, 1978, import of books on scientific, technical and educational subjects covered by List I in Appendix 21 of the Import Trade Control Policy for 1977-78 (Vol I) are allowed to be imported into India under an Open General Licence. In the context of the current import policy of the government, it is proposed to modify the existing provisions so as to dispense with the requirement of approval of the agreement for payment of copyright royalty by the central government in cases where the royalty is paid in respect of copyright in any book on a subject, the books on which are permitted to be imported under an Open General Licence in accordance with the Import Trade Control Policy of the government for April 1977 to March 1978.

54. The proposed amendments will take effect from 1st April, 1978 and will accordingly apply in relation to the assessment year 1978-79 and subsequent years.

[Clauses 22 and 29(1)]

55. **Liberalisation of the provision permitting taxpayers to substitute the actual cost of an asset by its fair market value for purposes of computing capital gains—**Capital gain arising from the transfer of a capital asset is computed by deducting from the consideration received by the taxpayer the cost of acquisition of the asset and the expenditure incurred in connection with the transfer. Where the capital asset is acquired before 1st January, 1954, the taxpayer may, at his option, substitute the fair market value of the asset as on that date in place of its actual cost of acquisition. Where the capital asset became the property of the taxpayer by any of the modes of acquisition

specified in section 49(1), e.g., under a gift or will or by succession, inheritance, etc. and such asset became the property of the "previous owner" before 1st January, 1954, the taxpayer has the option of substituting the fair market value of the asset as on 1st January, 1954 in place of its cost of acquisition to the "previous owner". Having regard to the fact that a large part of the capital gain on the transfer of such old assets is illusory, being attributable to inflationary pressures and decline in the value of money, and the fact that it is difficult in practice to determine the fair market value of an asset as on 1st January, 1954, it is proposed to advance the said date, by 10 years, i.e., to 1st January, 1964. The effect of the proposed provision will be that the appreciation in the value of capital assets during the period from 1st January,

1954 to 31st December, 1963 would be exempt from capital gains tax.

56. The proposed amendments will take effect from 1st April, 1978 and will accordingly apply in relation to the assessment year 1978-79 and subsequent years.

[Clauses 12 and 14]

57. **Increasing the monetary ceiling limit in respect of donations for charitable purposes—**Under section 80G of the Income-tax Act, a taxpayer is entitled to a deduction in the computation of his taxable income of an amount equal to 50 per cent of the donations made by him to certain funds and charitable institutions, or for the repair or renovation of any temple, mosque, gurdwara, church or any other place which is notified by the central government for the purposes of that section to be



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of historic, archaeological or artistic importance or to be a place of public worship or renowned throughout any state or states. Donations made to the government or to any such local authority, institution or association as is approved in this behalf by the central government, to be utilised for the purpose of promoting family planning are eligible for 100 per cent deduction. The amount of donations qualifying for deduction under section 80G is, however, limited to 10 per cent of the gross total income of the donor, subject to a further monetary limit of Rs 2 lakhs. Where the assessee has made any donations for the renovation or repair of any notified temple, mosque, gurdwara, church, etc., the

monetary limit of Rs 2 lakhs is increased up to Rs 5 lakhs so as to cover such donations.

58. With a view to encouraging more liberal donations to charitable trusts and institutions, the monetary ceiling of Rs 2 lakhs is proposed to be raised to Rs 5 lakhs. Consequently, the special provision whereunder the monetary limit of Rs 2 lakhs is raised to Rs 6 lakhs so as to cover only donations made to notified temples, mosques, gurdwaras, churches, etc. will be deleted.

59. These amendments will take effect from 1st April, 1978 and will accordingly apply in relation to the assessment year 1978-79 and subsequent years.

[Clause 16]

60. Exemption from tax of

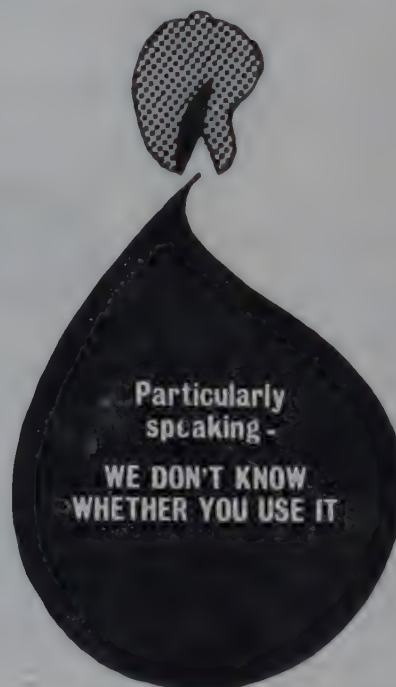
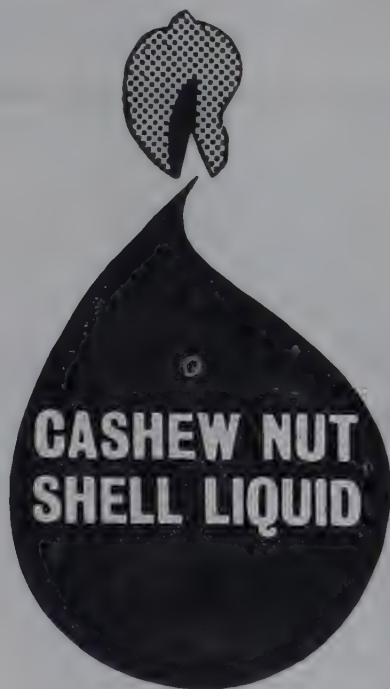
certain incomes of residents of Ladakh.—Under an existing provision in the Income-tax Act, income accruing or arising to any resident of Ladakh district from any source in that district or outside India was completely exempt from income-tax up to and including the assessment year 1974-75. The exemption was available only in the case of persons who were resident in Ladakh district in the previous year relevant to the assessment year 1962-63. This concession was allowed having regard, *inter alia*, to the consideration that residents of Ladakh had suffered hardship and their trade had been adversely affected as a result of the Chinese aggression and it was necessary to allow them time to rehabilitate

themselves. As Ladakh continues to be economically backward and the conditions which weighed for this concession continue to be valid even now, it is proposed to revive the exemption tax which was available in such cases up to and including the assessment year 1974-75 for a further period of five years, i.e., for the assessment years 1975-76 to 1979-80.

61. The proposed amendment is being made with retrospective effect from 1st April, 1975 so that the proposed exemption which had become available for the assessment years 1975-76 to 1979-80.

[Clause 17]

62. Tax relief in respect of remuneration received in



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by Indian technicians, Under a provision made Income-tax Act by the ce Act, 1975, fifty per of the remuneration re- by Indian technicians, from a foreign Govern- or foreign enterprise for es rendered outside India ducted in computing the e income. This tax con- n was provided to relieve ip in the case of Indian cians, etc., who went d for a short period dur- e financial year to work a foreign employer. In where such persons did ave the country early in ancial year, they became ent in India" for tax ses, with the result that hole of the remuneration ed by them from the n employer during that ial year became charge- to tax in India without eduction in respect of ses incurred by them eeting the higher living and other essential ex- ture incurred in foreign ries.

As the existing provision stricted to cases where n technicians, etc. receive neration from foreign em- rs, it creates an invidious ction between Indian cians working outside for Indian concerns and working for foreign em- rs. In order to remove nvidious distinction, it is sed to substitute the ng provision by a new sion with a view to extend cope of the concession emuneration received by n technicians, etc., for es rendered outside India, ective of whether the em- r is an Indian concern or eign employer. The deduc- under the proposed provi- will, however, be available,

in either case, only with re- ference to the remuneration received by Indian technicians, etc., in foreign currency.

64. The new provision will take effect from 1st April, 1978 and will accordingly apply in relation to the assessment year 1978-79 and subsequent years.

[Clause 19]

65. **Exemption of certain passage moneys paid to foreign employees** — The Income-tax Act provides exemption from tax in respect of passage moneys or the value of any free or concessional passage received by an individual of foreign nationality from his employer for himself, his spouse and children in connection with his proceeding on home leave out of India. Under the provision as worded, this exemption is not available where the children of the foreign employee studying outside India visit their parents in India during vacations. With a view to relieving the hardship arising from the taxation of such passage moneys, it is proposed to make a provision in the Income-tax Act providing exemption in respect of the passage moneys or the value of any free or concessional passage received by a foreign employee from his employer to meet the cost of travel of his children having full time education in any educational institution outside India, in connection with their proceeding to India during vacation.

66. The proposed amend- ment will take effect retrospec- tively from 1st April, 1972 and will accordingly apply in rela- tion to the assessment year 1972-73 and subsequent years.

[Clause 5(a)]

67. **Vacancy allowance in computing income from house**

property—Under the existing provisions of the Income-tax Act, a deduction by way of vacancy allowance is granted in cases where a house pro- perty which is let out remains vacant for a part of the year. The existing provisions have been construed to imply that the deduction by way of vacan- cy allowance can be granted only where the vacancy occurs *after* the house has been let out by the assessee. It is pro- posed to make a provision clarifying that the deduction in respect of vacancy allowance shall be granted irrespective of whether the period during which the property was vacant during the relevant year preced- es or follows the period during which it is let out.

68. The amendment will take effect from 1st April, 1977 and will accordingly apply in relation to the assessment

year 1977-78 and subsequent years.

[Clause 8]

69. **Payment of dividends without deduction of tax at source in certain cases**—Under the existing provisions of the Income-tax Act, income-tax is required to be deducted at source from any dividend paid or distributed by an Indian company or a company which has made the prescribed arrangements for the declara- tion and payment of dividends within India. Taxpayers (other than companies) having income not exceeding the exemption limit can, however, obtain an exemption certificate from the Income-tax officer authorising them to receive the dividend income without deduction of tax at source. With a view to avoiding inconvenience to small investors, particularly,

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investors from rural areas, it is proposed to also provide that dividends up to Rs 250 will be paid to resident shareholders (other than companies) without deduction of tax at source in cases where the shareholder furnishes to the company paying the dividend a statement in writing (in the prescribed form and verified in the prescribed manner) declaring that his estimated total income of the relevant year for which such dividend is chargeable to tax will be less than the minimum taxable amount.

70. Companies making payment of dividends without deduction of tax at source under the proposed provision will be required to deliver to the Income-tax Officer within 30 days from the end of each financial year a return in the prescribed form and verified in the prescribed manner showing

the name and address of each person who has furnished such a statement; the amount of dividend paid or distributed during the financial year to each such person without deduction of tax at source; and such other particulars as may be prescribed in the Income-tax Rules.

71. These provisions will come into force from 1st October, 1977.

[Clauses 24 and 25]

72. **Modification of the provisions relating to source rule in respect of fees for technical services**—The Finance Act, 1976 has made a provision in the Income-tax Act to the effect that income by way of "fees for technical services" will be deemed to accrue or arise in India in the following circumstances:

(a) fees for technical services

payable by the central government or any state government;

(b) fees for technical services payable by a resident, except where the payment is relatable to a business or profession carried on by him outside India or to any other source of his income outside India; and

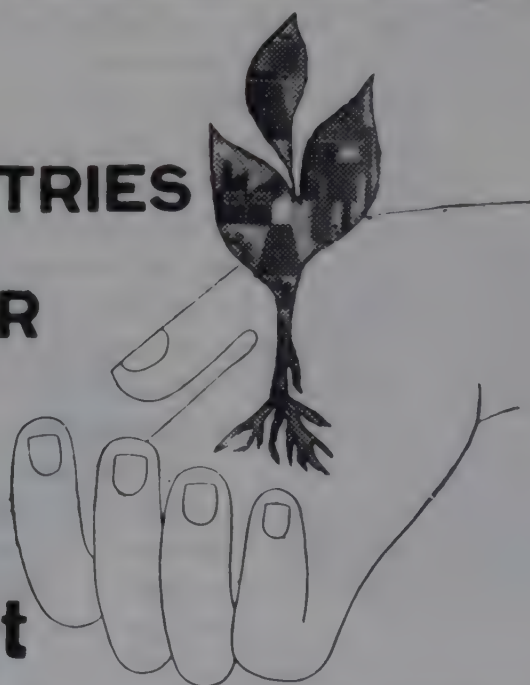
(c) fees for technical services payable by a non-resident if the payment is relatable to a business or profession carried on by him in India or to any other source of his income in India.

The effect of the deeming provision made by the Finance Act, 1976 is that, in the case of non resident taxpayers, income by way of fees for technical services received by them outside India from Indian concerns for rendering technical services *outside India*, which

were hitherto not chargeable to tax in India, have now come within the tax net.

73. It is proposed to amend this provision so that it shall not operate retrospectively in cases where foreign concerns had entered into agreements with the central government on the understanding that such payments would be exempt from income tax. It is accordingly proposed to provide that these deeming provisions will not apply in relation to income by way of fees for technical services received outside India in pursuance of an agreement made before 1st April, 1976 and approved by the central government. For the purposes of this provision, an agreement made on or after 1st April, 1976 will be deemed to have been made before

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if the agreement is made in accordance with proposals approved by the central government before that date.

4. These provisions will come into effect from 1st April, 1977 and will accordingly apply in relation to the assessment year 1977-78 and subsequent years.

[Clause 4]

Strengthening the appellate machinery by creation of a new appellate authority.

5. Under the existing provisions of the Income-tax Act, a taxpayer aggrieved by an order of the Income-tax Officer may appeal to the Appellate Assistant Commissioner. An appeal lies to the Appellate Assistant Commissioner even in cases where the order is made by the Income-tax Officer on the basis of directions issued by the Inspecting Assistant Commissioner of Income-tax under section 144B, inserted in the Income-tax Act by the Taxation Laws (Amendment) Act, 1975. As Appellate Assistant Commissioners are usually junior to Inspecting Assistant Commissioners, it is anomalous that they should sit in judgment on orders passed by Income-tax Officers in pursuance of statutory directions given by senior and more experienced officers. Where assessment jurisdiction is vested in important cases to Inspecting Assistant Commissioners under Section 125, or under Section 125A inserted in the Income-tax Act by the Taxation Laws (Amendment) Act, 1975, appeals against orders passed by Inspecting Assistant Commissioners lie to Commissioners of Income-tax. This also results in an unsatisfactory situation because the Commissioner of Income-tax is an administrative authority and not a regular appellate authority. It is also otherwise

desirable that appeals involving important and complicated questions of fact and law and having substantial revenue implications are heard and disposed of by senior and more experienced officers. In view of these considerations, it is proposed to create a new appellate authority, namely, Commissioner (Appeals) for the purposes of the Income-tax Act, the Wealth-tax Act, the Gift-tax Act, the Companies (Profits) Surtax Act and the Interest-tax Act.

76. Appeals to Commissioners of Income-tax (Appeals) would broadly lie in cases where the order is either made by the Inspecting Assistant Commissioner of Income-tax, or where the order is made by the Income-tax Officer after taking his prior approval as required by law or where the order is made on the basis of statutory directions given by him. Appeals against assessments made in the case of all foreign companies and those domestic companies whose assessed income exceeds Rs 5 lakhs will also lie to Commissioners of Income-tax (Appeals). Besides, appeals to Commissioners of Income-tax (Appeals) will lie in the case of such persons or classes of persons as the Board may, having regard to the nature of the cases, the complexities involved and other relevant considerations, direct.

77. The Bill seeks to make necessary amendments in the Income-tax Act to provide for matters such as appointment, jurisdiction, functions and powers of the new appellate authority, the procedure to be followed in appeals before them, and to also make certain ancillary and transitional provisions.

78. The aforesaid amend-

ments and provisions will come into force on such date as the central government may, by notification in the Official Gazette, appoint in this behalf.

[Clause 39 and Part I of the Fifth Schedule]

Other Provisions

79. **Modification of the provisions relating to investment pattern of religious or charitable trusts and institutions.**—Under provisions made in the Income-tax Act by the Taxation Laws (Amendment) Act, 1975, charitable or religious trusts and institutions are required to invest their funds in certain forms and modes specified in the Income-tax Act. Any trust or institution which does not conform to the prescribed pattern of investment in any accounting year commencing on or after 1st

April, 1978 would lose exemption from income-tax. With a view to give more time to such trusts and institutions to bring their investment pattern in line with the new requirements, the date for change over to the new pattern of investment is proposed to be extended by three years, from 1st April, 1978 to 1st April, 1981. Charitable or religious trusts and institutions which do not conform to the new pattern of investment within the extended time would lose exemption from income-tax in respect of their income assessable for any assessment year commencing on or after 1st April, 1982.

80. Under the new pattern of investment laid down by the Taxation Laws (Amendment) Act, 1975, charitable or religious trusts and institutions could deposit their funds with nationalised banks, but not with other scheduled or

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co-operative banks. It is proposed to modify the relevant provision so that such trusts or institutions may deposit their funds with scheduled banks and co-operative banks as well.

81. Profits accumulated or set apart by charitable or religious trusts and institutions for being applied to charitable or religious purposes are required to be invested in the interregnum in certain forms and modes specified in the Income-tax Act. The existing provisions permit deposits with *any* banking company to which the Banking Regulation Act, 1949 applies. It is proposed to modify these provisions so as to permit such deposits with only scheduled banks (including nationalised banks) and co-operative banks. The proposed restriction will, however, not apply in relation to amounts

deposited or which continue to remain deposited with banking companies (other than scheduled banks) during any accounting year commencing before 1st April, 1981.

82. The proposed amendments will take effect from 1st April, 1978.

[Clauses 6 and 7]

83. **Exemption limit for payment of "advance tax" in the case of non-residents**—Income-tax is required to be paid in advance during every financial year in three equal instalments by specified dates on the taxpayer's current income (other than capital gains or income by way of winnings from lotteries, race winnings, etc.) liable to tax for the assessment year next following the financial year. Advance tax is payable only where the income of the taxpayer subject to advance

tax exceeds the limit specified below:

	Rs.
(a) In the case of a company or a local authority	2,500
(b) In the case of a registered firm	30,000
(c) In the case of other categories of taxpayers	
(1) where the taxpayer is a non-resident	5,000
(2) where the taxpayer is a resident	10,000

With the raising of the exemption limit to Rs. 10,000, the aforesaid limit of Rs. 5,000 in the case of non-resident taxpayers is proposed to be increased to Rs 10,000. In the result, a uniform limit of Rs 10,000 will be applicable for purposes of payment of advance tax in the case of all

taxpayers, other than companies, local authorities and registered firms.

84. The proposed amendment will take effect from September, 1977.

[Clause

85. **Removal of lacuna in provision relating to imposition of penalty for making false estimate of advance tax in certain cases**—Under section 212 of the Income-tax Act, it is obligatory for a person to pay advance tax on his own estimate if the advance tax computed on his "current income" exceeds the amount of advance tax demanded from him by more than 33-1/3 per cent of the latter. Section 273 of the Income-tax Act provides for imposition of penalty on a person who furnishes a false estimate of advance tax, including a false estimate under the aforesaid provision.

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for calculating the penalty amount by which the advance tax actually paid during the financial year falls short of the assessed advance tax demand by the Income-tax Officer, never is less. The minimum penalty imposable is not less than 10 per cent of the amount of such shortfall, and the maximum is $1\frac{1}{2}$ times the amount. The aforesaid method for computing the penalty is unworkable in cases where a false estimate of advance tax is made under section 212(3A) of the Income-tax Act. This is due to the fact that the penalty is required to be calculated with reference to the shortfall between the advance tax actually paid by the taxpayer and the lower of the following two amounts, namely:—

75 per cent of the assessed tax; or

the advance tax demanded by the Income-tax Officer.

An estimate of advance tax required to be made under section 212(3A) only in cases where the advance tax payable on the basis of the current income exceeds the advance tax demanded by the Income-tax Officer by more than $\frac{1}{3}$ rd of the latter, the advance tax payable under section 212(3A) necessarily be more than the advance tax demanded by the Income-tax Officer. In view of this position, a penalty under section 273 cannot be levied for default under section 212(3A) of the Income-tax Act.

With a view to removing the lacuna, it is proposed to provide that the penalty imposable for furnishing a false estimate of advance tax under section 212(3A) will be calculated with reference to the amount by which the advance tax actually paid during the

financial year falls short of 75 per cent of the assessed tax. For this purpose, the amount paid by the taxpayer after the end of the relevant financial year but within the time extended by the Commissioner under the proviso to sub-section (3A) of section 212, will be regarded as tax actually paid by the assessee during the financial year.

87. The proposed amendment will take effect from 1st September, 1977.

[Clause 27]

V. Proposed Amendments to the Wealth-tax Act

88. **Increase in the rates of wealth-tax**—Under the existing provisions of the Wealth-tax Act, the rates of wealth-tax range from $\frac{1}{2}$ per cent in the first slab of net wealth up to Rs 5 lakhs to a maximum of $2\frac{1}{2}$ per cent on the net wealth in the slab over Rs 15 lakhs. In the case of Hindu undivided families having one or more members with independent net wealth exceeding Rs 1 lakh, the maximum rate of $2\frac{1}{2}$ per cent is applicable on the slab of net wealth over Rs 10 lakhs. The Bill seeks to increase the rates of wealth-tax applicable on net wealth above Rs. 2,50,000 with a view to raising revenue and to increase the incidence of tax on wealth in higher slabs. In the case of individuals and Hindu undivided families (other than those having one or more members with independent net wealth exceeding Rs. 1 lakh) wealth-tax will be chargeable under the proposed rate schedule on the new slab of net wealth up to Rs 2,50,000 at the existing rate of $\frac{1}{2}$ per cent. The rates of wealth-tax in the other slabs will be, 1 per cent on the slab from Rs. 2,50,001—5,00,000 (as against $\frac{1}{2}$ per cent at pre-

sent); 2 per cent on the slab from Rs 5,00,001—10,00,000 (as against $1\frac{1}{2}$ per cent at present); $2\frac{1}{2}$ per cent on the slab from Rs 10,00,000—15,00,000 (as against 2 per cent. at present); and $3\frac{1}{2}$ per cent on the slab of net wealth over Rs 15,00,000 (as against $2\frac{1}{2}$ per cent at present). In the case of Hindu undivided families having one or more members with independent net wealth exceeding Rs 1 lakh, the net wealth in the new slab up to Rs 2,50,000 will be charged to wealth-tax at the existing rate of $1\frac{1}{2}$ per cent. The new rates of wealth-tax on the other slabs will be, 2 per cent on the slab from Rs 2,50,001—5,00,000 (as against $1\frac{1}{2}$ per cent at present); $2\frac{1}{2}$ per cent on the slab from Rs 5,00,001—10,00,000 (as against 2 per cent at present); and $3\frac{1}{2}$ per cent on the slab of net wealth over

Rs 10,00,000 (as against $2\frac{1}{2}$ per cent at present).

89. The new rate schedule will come into force from 1st April, 1977 and will accordingly apply in relation to the assessment year 1977-78 thus superseding the rate schedule introduced by the Finance Act, 1976 from that date.

[Clause 30]

90. As explained in paragraph 75 of this Memorandum, it is proposed to create a new appellate authority, namely, Commissioner (Appeals) for the purposes of the various direct taxes enactments, including the Wealth-tax Act. Broadly, appeals will lie to Commissioners (Appeals) in cases where the order is either made by the Inspecting Assistant Commissioner of Wealth-tax, or where the order is made after taking his prior approval

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as required by law or where the order is made on the basis of directions given by him. Appeals to Commissioners (Appeals) will also lie in cases where the net wealth determined on assessment exceeds Rs 15 lakhs. Besides, appeals

to Commissioners (Appeals) could lie in the case of such persons or classes of persons as the Board may, having regard to the nature of the cases, the complexities involved and other relevant considerations, direct.

91. Necessary amendments are proposed to be made in the Wealth-tax Act to provide for matters, such as, appointment, jurisdiction, functions and powers of the new appellate authority, the procedure to be followed in appeals before

them and for certain amendments and transitional provisions [Clause 39 and Part II of the Fifth Schedule].

VI. Proposed Amendments to Gift-tax Act, Companies Profits Tax Act and The Interest-tax Act.

92. As explained in paragraph 75 of this Memorandum, it is proposed to create an appellate authority, namely, the Commissioner (Appeals) for the purposes of the various tax enactments, including the Gift-tax Act, the Companies (Profits) Surtax Act and the Interest-tax Act.

93. At present, appeals against orders made by Income-tax Officers under the Companies (Profits) Surtax Act and the Interest-tax Act will lie to the Appellate Assistant Commissioner of Income-tax in cases where assessment jurisdiction is assigned to the Inspecting Assistant Commissioner, appeals against orders made by him lie to the Commissioner and the Commissioner of Income-tax. These two enactments are proposed to be replaced by the Income-tax Act of 1961 of Commissioner (Appeals).

94. Appeals under the Income-tax Act to Commissioner (Appeals) will broadly be in cases where the order is made by the Inspecting Assistant Commissioner or where the order is made after taking prior approval as required by law or where the order is made on the basis of directions given by him. Appeals against orders made by Gift-tax Officers will also lie to Commissioner (Appeals) in cases where the value of taxable gifts determined on assessment exceeds Rs. 2 lakhs. Besides, appeals to Commissioner (Appeals) will lie in the case of such persons or classes of persons

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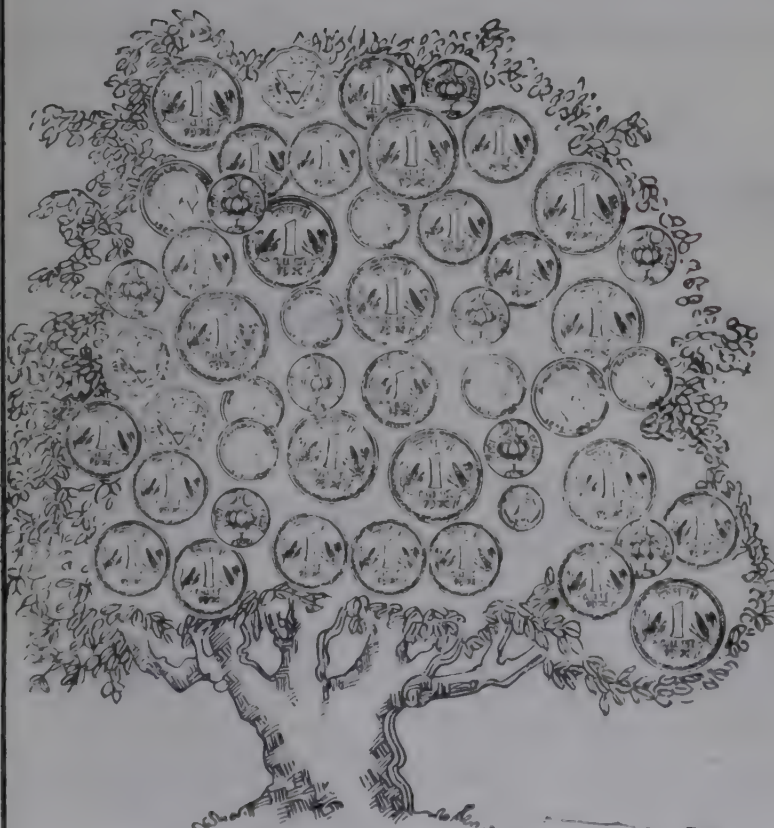
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Board may, having regard to the nature of the cases, the complexities involved and other relevant considerations, direct.

5. The Bill seeks to make necessary amendments in the said enactments to provide matters, such as, appointment, jurisdiction, functions and powers of the new appellate authority, the procedure to be followed in appeals before them and for certain transitional provisions.

Clause 39 and Parts III, IV and V of the Fifth Schedule]

Proposed Amendments to the Khadi and Village Industries Commission Act.

6. **Exemption of Khadi and Village Industries Commission.**—The Khadi and Village Industries Commission was established under the Khadi and Village Industries Commission Act, 1956 to plan, organise and implement programmes for the development of khadi and village industries. The Commission functions under the control, supervision and direction of the central government. Having regard to the laudable objectives of the Commission and the fact that profits derived by it are utilised for the advancement of its objects, it is proposed to amend the Khadi and Village Industries Commission Act, 1956 with a view to exempting the Commission from payment of income-tax on its income, profits or gains.

7. The proposed provision will take effect retrospectively from 1st April, 1962, i.e., from the commencement of the Income-tax Act, 1961.

[Clause 34]

II. Proposed Amendments to the Finance Act, 1973.

8. **Exemption of Credit Guarantee Corporation of India**

Ltd—The Credit Guarantee Corporation of India Ltd is registered as a company under the Companies Act, 1956. About 60 per cent of its paid-up capital is held by the Reserve Bank of India and the remaining by the State Bank of India and its subsidiaries, nationalised banks and other banking and financial institutions. The Corporation guarantees loans advanced by banks and financial institutions to small borrowers in the priority and other sectors which have remained relatively neglected. The Corporation serves a desirable socio-economic purpose and with a view to enabling it to perform its functions effectively and to build up its reserves, the Corporation was exempted from income-tax and surtax by section 23 of the Finance Act, 1973 for a 5-year period covering the assessment years 1972-73 to 1976-77 (both inclusive). It is proposed to continue the exemption of the Credit Guarantee Corporation of India Ltd for a further period of two years, i.e., in relation to the assessment years 1977-78 and 1978-79 by making an amendment in this behalf to the Finance Act, 1973.

99. The proposed amendment will take effect from 1st April, 1977.

[Clause 35]

IX. Proposed Amendments to the Compulsory Deposit Scheme (Income-tax Payers) Act.

100. Under the Compulsory Deposit Scheme (Income-tax Payers) Act, 1974, individuals who are citizens of India, Hindu undivided families and trustees of discretionary trusts are required to make compulsory deposits for the assessment years 1975-76 to 1977-78 if their "current income" ex-

ceeds Rs. 15,000. In order to raise necessary resources as also to curb inflationary pressures, it is proposed to continue the compulsory deposit scheme in the case of income-tax payers for another two years, i.e., for the assessment years 1978-79 and 1979-80. However, persons who are over 70 years of age will not be required to make any compulsory deposit hereafter. For the purposes of this provision, the age of the person will be determined as on the 1st day of the financial year immediately preceding the assessment year for which the compulsory deposit is required to be made. Hence, persons who were more than 70 years of age as on 1st April, 1977 will not be required to make any compulsory deposit during the current financial year in relation to the assessment year 1978-79.

101. The amendment extend-

ing the operation of the scheme for compulsory deposits will take effect from 1st April, 1977 and the amendment exempting persons over the age of 70 from the requirement of making compulsory deposits will take effect from 1st September 1977.

[Clause 36]

X. Proposed Amendments to The Oil Industry (Development) Act.

102. **Exemption of Oil Industry Development Board**—The Oil Industry Development Board has been established under the Oil Industry (Development) Act, 1974. The main function of the Board is to render financial and other assistance for the promotion of all such measures as are conducive to the development of oil industry. The members of the Board are appointed by the central government from

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g officers of the Ministry dealing with Petroleum Chemicals; Ministry of Finance; corporations owned and controlled by the central government and engaged in oil industry; representatives of foreign companies; and persons having special knowledge or experience in the oil industry. The funds required for the purposes of the Act are raised by the central government by means of a tax on indigenous crude oil produced under section 15 of the Oil Industry (Development) Act, 1974. The Board derives its income by way of interest from deposits by investment of its funds.

3. Having regard to the fact that the Board controls the disbursement and administration of its funds in consultation with the government; that its interest earnings are set against Petroleum Ministry total budgetary demands; and the fact that the Board is an institution run with a profit-making motive, it is proposed to amend the Oil Industry (Development) Act, 1974 so as to exempt the Board from payment of income-tax.

4. The proposed provision being made with retrospective effect from the commencement of the Oil Industry (Development) Act, 1974.

[Clause 37]

Proposed Amendments to the Voluntary Disclosure of Income and Wealth Act, 1976

5. Persons making a disclosure of income under section 15 of the Voluntary Disclosure of Income and Wealth Act, 1975 (later replaced by the Voluntary Disclosure of Income and Wealth Act, 1976) are required to pay at least half of the income-tax

chargeable in respect of the disclosed income by 31st March, 1976 and the remaining amount by 31st March, 1977. Persons making a voluntary disclosure of wealth under section 15 of the said Act were similarly required to pay one-half of the wealth-tax chargeable in respect of the disclosed wealth by 31st March, 1976 and the balance by 31st March, 1977. In addition they were required to invest an amount equal to 2½ per cent of the wealth declared by them in notified Government securities within thirty days from the date of which the declaration was made. A large number of persons who had made declarations under these provisions have, however, not been able to comply with the aforesaid time limit for payment of tax and for investment in notified Government securities. Such persons have thereby forfeited the benefit of immunity from penalty, prosecution, etc. provided under the said Act.

106. In order to avoid hardship arising from the denial of immunity in such cases, it is proposed to give one last chance to such persons to pay their tax dues and to make investment in notified government securities. It is accordingly proposed to amend the Voluntary Disclosure of Income and Wealth Act, 1976 to secure that taxpayers who pay the unpaid amount before 1st January, 1968 and, where necessary, also make investment in notified government securities before that date, will continue to remain entitled to the immunities provided under the said Act. Such persons will, however, be required to pay simple interest at the rate of 12 per cent per annum on the amount of tax remaining unpaid on 31st March, 1976. The interest will be calculated at the

said rate from April 1, 1976 to the date of payment of such tax. The benefit of continued immunity will be available only where such interest is also paid by the declarants before January 1, 1978.

107. The proposed amendments will take effect from 1st April, 1976.

[Clause 38]

ANNEXURE

List of Articles or Things Specified in the Eleventh Schedule

1. Beer, wine and other alcoholic spirits.
2. Tobacco and tobacco preparations, such as, cigars and cheroots, cigarettes, biris, smoking mixtures for pipes and cigarettes, chewing tobacco and snuff.
3. Cosmetics and toilet preparations
4. Tooth paste, dental cream, tooth powder and soap.
5. Aerated waters in the manufacture of which blended flavouring concentrates in any form are used.
6. Confectionery and chocolates.
7. Refrigerating and air-conditioning appliances and machinery (including refrigerators and air-conditioners).
8. Gramophones, including record players, and gramophone records.
9. Broadcast television receiver sets; radios (including transistor sets); radiograms and tape recorders (including cassette recorders and tape decks).
10. Cinematograph films and projectors.
11. Photographic apparatus and goods.
12. Watches.

13. Electric fans.
14. Domestic electrical appliances, not falling under any other item in this list.
15. Household furniture, utensils, crockery and cutlery not falling under any other item in this list.
16. Pressure cookers.
17. Vacuum flasks and other vessels.
18. Tableware and sanitary-ware.
19. Glass and glassware.
20. Chinaware and porcelain-ware.
21. Mosaic tiles and glazed tiles.
22. Organic surface active agents; surface active preparations and washing preparations whether or not containing soap.
23. Synthetic detergents.
24. Office machines and apparatus such as typewriters, calculating machines, cash registering machines, cheque writing machines, intercom machines and teleprinters.
25. Computers, including central processing units and peripheral devices.
26. Steel furniture, whether made partly or wholly of steel.
27. Safes, strong boxes, cash and deed boxes and strong room doors.
28. Motor cars, motor cycles, scooters and other mopeds.
29. Forklift trucks and platform trucks.
30. Latex foam sponge.
31. Pigments, colours, paints, enamels, varnishes, blacks and cellulose lacquers.
32. Crown corks, or other fittings or cork rubber, polyethylene or any other material.
33. Pilfer-proof caps for pack-

aging or other fittings of cork, rubber, polyethylene or any other material.

34. Amplifiers or any other apparatus for addressing the public.

Customs

1. The proposals include:—

- (a) Revision of the basic import duty on exposed cinematograph films from the specific rate to an *ad valorem* rate;
- (b) Increase in the basic import duty on acrylic yarn from 100% *ad valorem* plus Rs. 20 per kg to 100% *ad valorem* plus Rs. 30 per kg;
- (c) Increase in the basic import duty on polyester fibre from 100% *ad valorem* to 140% *ad valorem*;
- (d) Increase in the basic

import duty on certain electronic components and materials to 100% *ad valorem*;

- (e) Increase in the import duty (basic plus auxiliary) on raw wool (including wool tops) from 45% *ad valorem* to 75% *ad valorem* and increase in duty on woollen waste and woollen rags from 5% *ad valorem* to 25% *ad valorem*;
- (f) Reduction in the import duty (basic plus auxiliary) on watches and parts thereof from 120% *ad valorem* to 45% *ad*

valorem;

- (g) Reduction in the import duty (basic plus auxiliary) on alloy steel and high carbon steel from 75% *ad valorem* to 40% *ad valorem*;

- (h) Reduction of import duty (basic plus auxiliary) from 45% to 40% *ad valorem* and abolition of additional duty of Rs. 5600 per tonne on electrolytic copper used in the manufacture of certain specified types of electric motors, generators and transformers;

- (i) Reduction of import duty (basic plus auxiliary) on stainless steel plates, sheets and strips from 120% and 320% *ad valorem* to different rates ranging from 40% to 120% *ad valorem* depen-

ding upon thickness

- (j) Reduction of the incidence of import on newsprint from *ad valorem* to 2½% *ad valorem*.

2. The gain in revenue result of the proposals (a) to (f) is estimated to be Rs 3030 lakhs in a year. Details where the gain is Rs 1 crore or more are given in Table I. The total of revenue involved in the proposals is Rs 3765 lakhs as indicated in Table II.

TABLE II

Sl. No.	Name of article	Loss of revenue in full year
---------	-----------------	------------------------------

(Rs lakhs)

TABLE I

Sl. No.	Name of article	Additional revenue in one full year
---------	-----------------	-------------------------------------

(Rs lakhs)

1.	Raw wool (including wool tops), woollen waste and woollen rags	+1700
2.	Electronic components and materials	+100
3.	Watches and parts thereof	+1200
4.	Other commodities	+30
		+3030

1. Alloy steel and high carbon steel

2. Electrolytic copper for specified use

3. Stainless steel plates, sheets & strips

4. Newsprint

[Clause]

3. The changes in duties result of the proposals (f) to (j) above are effected by notification

4. Additional revenue amounting to Rs. 220 lakhs annum is also expected additional (countervailing) duties consequent on changes in excise duties

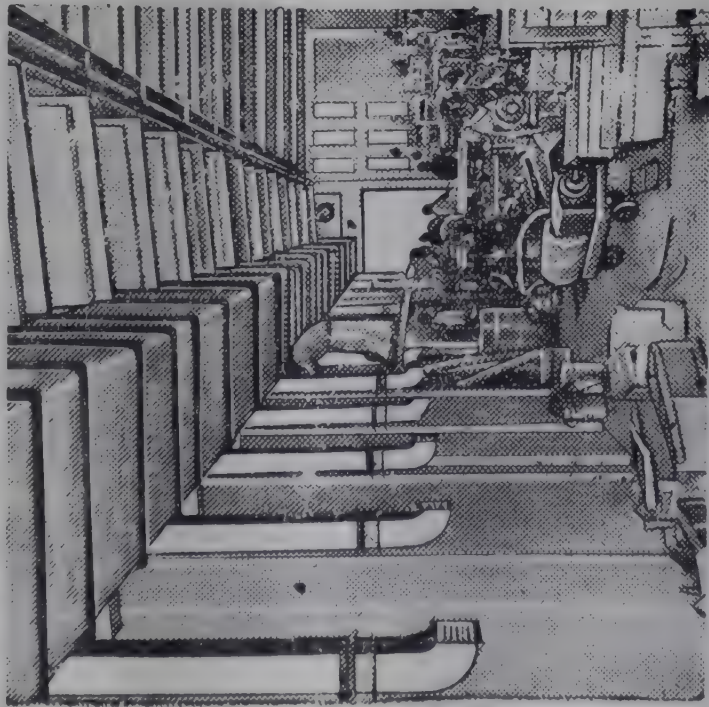
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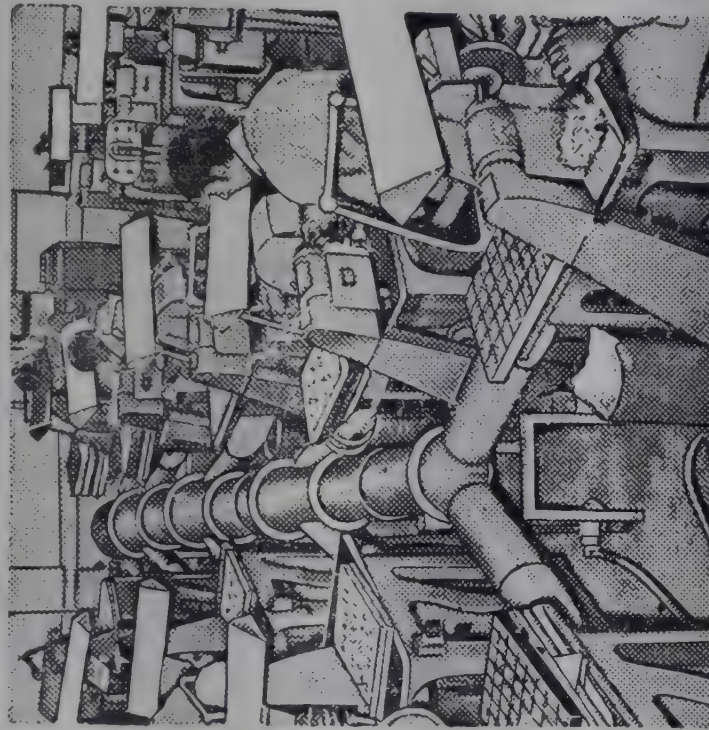
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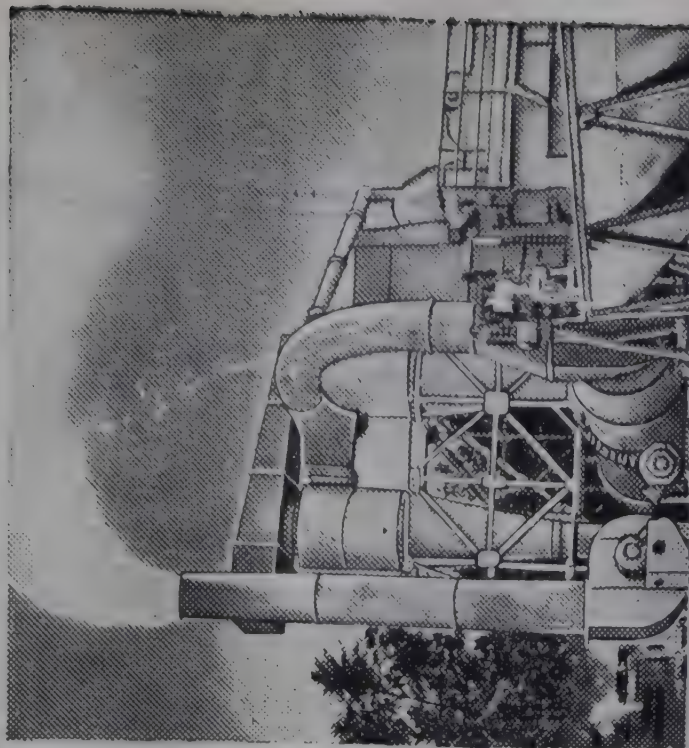


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DUVENT, Professionals in industrial Air Pollution Control. Devising systems to control and eliminate fumes from all walks of industrial activity.

DUVENT - the professionals

Duvent, professionals in air pollution control, design, fabricate, erect and commission different systems to suit specific industrial requirements.

Duvent have designed and commissioned systems for different types of industries such as textile, pharmaceuticals engineering, chemicals, paper, steel, cement, ship-yard etc.

Duvent offer their technical expertise for various systems such as.

- Dust Extraction
- Humidification
- Fume Removal
- Viscous Filters
- Blowers
- Ventilation
- Axial Fans
- Pressurising
- Industrial Mancooler
- Evaporative coolers
- Spray painting Booths
- Pneumatic conveyance



**DUST
CONTROL AND
VENTILATION PVT. LTD.**

Madras: 754, Annanagar, Madras 600 040 Grams: DUVENT Phone: 612140

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Delhi Office: 808, Eros Apartments, 56, Nehru Place, New Delhi 110 048

Factory: 66, Industrial Suburb, Yeswanthpur, Bangalore 560 022 Grams: DUVENT Phone: 30622

INCAB means quality in diversity

Founded in 1920—today, India's largest and most technically advanced cable manufacturing company

PILC Cables

The range of PILC cables includes—MIND type power cables for all voltages upto and including 33 kV, 100 kV dc Precipitator cable and PILC mining cable.



PVC Power Cables

PVC power cables for all voltages upto 11 kV grade, Heat Resisting PVC cables and Mining cables. Railway Signalling cables, Insulated armoured communication cables and Control cables are also available.



Thermo plastic Insulated Cables and Flexibles for Domestic and Industrial Wiring

INCAB produces all types of thermoplastic insulated cables and flexibles—suitable for switchboard, signalling, telecommunications train-lighting, aircraft, airport lighting television, space, research, radio, frequency applications, automobiles and other vehicles.



Elastomer Insulated Cables

INCAB manufactures elastomer insulated cables (VIR, butyl rubber, ethylene propylene rubber, silicon rubber) with heat oil and fire resisting sheaths like PCP, NBR/PVC, CSP for welding, crane wiring, boiler house & furnaces wiring, ship wiring, trailing cables in mines & quarries, locomotives, oil rigs and other special locations where high ambient temperature is encountered.



Cable Jointing Accessories

We market accessories and equipment such as cable jointing boxes upto and including 33 kV, insulating components and tapes—compound and other jointing materials. Besides our range of standard products we undertake to develop products to customers' specifications.

Winding Wires and Strips

A wide range of insulated conductors for coil windings in electric motors, generators, transformers, fans, etc. These are suitably covered with cotton, glass, paper, enamel—depending on their application and also Continuously Transposed Conductors for high voltage transformer winding.

Non-Ferrous Rods

INCAB's non-ferrous rolling mill, the largest of its kind in India is equipped to produce aluminium, copper and cadmium copper rods of the consistency, purity and high quality essential for electrical conductors.



Overhead Transmission Conductors

INCAB manufactures overhead conductors—AAC/ACSR for transmission and distribution systems. Drawn from rods produced in our own rolling mill and under rigid quality control, these conductors ensure high tensile strength, conductivity and surface finish.

Contract Department

INCAB not only manufactures cables, it helps in their installation too. For over half-a-century, INCAB Contract Department has successfully carried out the electrification of major projects all over the country.

Exports

INCAB products have come to be recognised as equal in quality and technical perfection to the best in the international market.

Today INCAB products conforming to relevant foreign specifications are being exported to over 35 countries around the world.

Branches At :

Ahmedabad, Amritsar, Bangalore, Coimbatore, Jamshedpur, Kanpur, Madras, New Delhi, Poona and Secunderabad.

Works :

Jamshedpur and Poona

INCAB
THE INDIAN CABLE COMPANY LIMITED
quality cablemakers—first and foremost

INC 9254

Union Excise Duties

Notes

Percentages indicated under the "Rate of duty" column are "*ad valorem*".
The "Existing" rate of duty shown in column (5) is the sum of the basic rate of duty and the effective auxiliary duty of excise. For the sake of reference, commodities liable to auxiliary duties of excise have been marked with an asterisk.*

(3) Abbreviations:

B = Basic duty
A = Additional duty of excise in lieu of sales-tax or additional duty of excise on mineral products, as the case may be
AY = Auxiliary duty
E = Exempted from duty
NC = No change
DR = Different rates
MT = Metric tonne
Qtl. = Quintal
Rs. = Rupees

d = denier
Sq.m. = Square metre
kg. = kilogram
n.o.s. = not otherwise specified
n.e.s. = not elsewhere specified
gms. = grammes
NF = New French
neg. = Negligible
p = paise
ml. = millilitre
Kl = kilolitre
cc = cubic centimetres
cm = centimetres

(4) Indicators

** = Revenue measure
† = Rationalisation with revenue significance
†† = Rationalisation with little or no revenue significance.

(5) Wherever against any S. No. under any Tariff Item there is more than one entry, subitems of commodities have also been indicated under column 2.

Tariff Item No.	Commodity	Unit	Rate of duty		Estimated net effect in one full year
			Existing (Basic + Auxiliary)	Proposed (Basic)	
2	3	4	5	6	7

A. CHANGES PROPOSED BY BILL

(Rs lakhs)
(—) 160

1A Confectionery, cocoa powder and chocolates.

Existing description

(1) Boiled sweets, toffees, caramels, candies, nuts, etc. and chewing gums.

10% ✓

Proposed description

(1) Chewing gums

10% ✓

It is a measure of relief to the consumers of boiled sweets, toffees, caramels, candies, etc.

The tariff description has been amended to exclude boiled sweets, toffees, etc. which will hereafter be covered under Item No. 68.

[Sl. No. (i) of Part-I of the Third Schedule]
10

1C Food products.

Existing description of sub-item (2) and rate

(2) Pasteurised butter

10% ✓

Proposed description of sub-item (2) and rate

(2) Butter, whether pasteurised or not.

10% ✓

The tariff description has been widened to include unpasteurised butter; however by an exemption notification, it is proposed to grant relief to manufacturers who produce not more than 50 Kgs of butter per day.

[S. No. (ii) of Part-I of the Third Schedule]

4I Unmanufactured tobacco—*

(1) if flue-cured and used in the manufacture of cigarettes.

Kg Rs 5/- @ Rs 20/-

(2) if flue-cured and used for the manufacture of smoking mixtures for pipes and cigarettes.

Kg Rs 40/- @ NC

(3) Flue-cured and n.o.s.

Kg Rs 4/- Rs 20/-

(4) if other than flue-cured and used for the manufacture of cigarettes, etc.

Kg Rs 4/- @ Rs 20/-

@ Plus 10% of effective basic duty as auxiliary duty.

—Contd.

Effective rates

- (1) above
(2) above
(3) above
(4) above

Kg	Rs 4.84	Rs 4.85
Kg	Rs 4.84	Rs 4.85
Kg	Rs 2.50	NC
Kg	Rs 3.85	NC

There is no change in the present effective rates of additional duty of excise in lieu of sales tax.

[Sl. No. (iii) of Part-I of the Third Schedule]

4. 4II(1) Cigars & Cheroots.*

155%+10% of 170%
basic duty as
auxiliary duty.

The existing exemptions will continue. There is no change in the present rate of additional duty of excise in lieu of sales tax.

[Sl. No. (iii) of Part-I of the Third Schedule]

5. **4II(2) Cigarettes*

B. 250% @ 270%
A. 100% NC

Effective rates

	Existing	Proposed
Cigarettes of which the value per one thousand—	B+Ay. @	A B
(i) does not exceed rupees fifteen	115%	35% NC
(ii) exceeds rupees fifteen but does not exceed rupees twenty	115% plus 1% for every addl. rupee or part thereof in excess of Rs 15/- but not exceeding Rs 20/- per one thousand	35%+1% for every addl. rupee or part thereof in excess of Rs 15/- but not exceeding Rs 20/- per one thousand
(iii) exceeds rupees twenty	120%+4% for every addl. rupee or part thereof in excess of Rs 20/- per one thousand	130%+5% for every addl. rupee or part thereof in excess of Rs 20/- per one thousand

@Auxiliary duty at 10% of effective basic duty was hitherto leviable in the case of cigarettes whose value ex Rs 24 per one thousand.

6. **4II(3)

[Sl. No (iii) of Part-I of the Third Schedule]

(i) Biris in the manufacture of which any process has been conducted with the aid of machines operated with or without the aid of power.	Per 1000	Rs 3.80 B Re. 0.80 A	Rs 4.60 B Re 1.00 A
(ii) Other biris.	Per 1000	Re. 0.80 B Re. 0.20 A	Rs. 1.60 B Re. 0.40 A

Under the category "other biris" only hand-made biris with brand name will continue to pay duty.

[Sl. No. (iii) of Part-I of the Third Schedule]

Sl. No. (ii) of Part-II of the Fourth Schedule

2	3	4	5	6	7
4II(4)	Smoking mixtures for pipes and cigarettes.*		200%+10% of effective basic duty as auxi- liary duty	220%	(Rs lakhs) neg.
	Effective rate		170.5%	170%	
	Smoking mixtures will continue to pay the present additional duty of excise in lieu of sales tax.				
14C	Glycerine.*		[Sl. No. (iii) of Part-I of the Third Schedule]		
			15%	15%	—
14D	Synthetic Organic Dyestuffs, (including pigment dyestuffs) and synthetic organic derivatives used in any dyeing process.*		[Sl. No. (iv) of Part-I of the Third Schedule]		
			30%	30%	—
144D	S.O. Products.*		[Sl. No. (v) of Part-I of the Third Schedule]		
			24%	25%	8
14F	Cosmetics and toilet preparations.*		[Sl. No. (vi) of Part-I of the Third Schedule]		
			60%	60%	18
	In the case of perfumed hair oils which carry an effective rate of 18% (B+Ay), the rate is being increased by notification to 20% (B).				
16A	Rubber products, the following namely :*		[Sl. No. (vii) of Part-I of the Third Schedule]		
	(1) Latex foam sponge.		72%	50%	(—) 75
	(2) Plates, sheets and strips unhardened, etc.		36%	36%	
	(3) Piping and tubing of unhardened vulcanised rubber.		24%	24%	
	(4) Transmission, conveyor or elevator belts or belting of vulcanised rubber.		24%	24%	
†16AA	Synthetic rubber*		[Sl. No. (viii) of Part-I of the Third Schedule]		
			Rs 300/- per tonne + Aux- iliary duty at varying rates on specified varie- ties of synthetic rubber.	5%	40
16B	Plywood, Block board, Lamin board, Batten board etc.*		[Sl. No. (ix) of Part-I of the Third Schedule]		
	(i) Plywood for tea chests, etc.		11%	10%	neg.
	(ii) All others		27.5%	27.5%	
	Basic and auxiliary duties are being merged, but the existing aggregate effective rates of duty remain unchanged, except for minor modifications.				
17	Paper and paper boards		[Sl. No. (x) of Part-I of the Third Schedule]		
	(2) Paper board and all other kinds of paper, not elsewhere specified.		30%	40%	(—) 310

NOTE : The existing effective concessional rates for all types of paper and paper board falling under sub-item (2) above remain unchanged.

As a measure to encourage the use of unconventional raw materials in the manufacture of paper, it is proposed to increase the present exemption of 9 paise per kg to 33-1/3 per cent of duty otherwise leviable, for use of bagasse, jute stalks or cereal straw to the minimum extent of 50 per cent in the manufacture of paper. This concession will not be applicable to paper boards and certain specified papers.

—Contd.

The new *Godrej*[®] Fire-resisting Filing Cabinet

**Protects vital documents
as effectively as a Godrej
fire-resisting safe.**

Just one big fire can put you out of business—simply by consuming your vital, irreplaceable documents. To keep them safe, yet at hand, Godrej brings you all the convenience of a filing cabinet with the protection of a Godrej fire-resisting safe.

Famous Godrej Fire-resisting compound

Unequalled for effectiveness, this Godrej compound provides as much resistance to flames and hot gases as a 610 mm thick concrete wall!

All-round protection for each drawer

Each of the four drawers of the Godrej Fire-Resisting Filing Cabinet is a separate, self-sufficient unit—with slabs of the fire-resisting compound protecting it from all sides.

Thus even if one drawer is inadvertently left open the engulfing fire cannot affect the other closed ones.

Robust construction

Even if the floor collapses during a fire, the Cabinet has the strength to absorb the impact of a fall from a height and of debris falling on it.

Ample storage space

The Cabinet has four drawers. Each drawer is large enough to hold legal and other kinds of documents.

Ease of use

The drawers slide out straight and level. Even a heavily loaded drawer will not sag when drawn out fully.

Access to the very last file is easy.

A side-locking arrangement allows any drawer to be kept open for use while the others are locked.

Automatic locking— at a push

Heavy-duty ball-bearings make each drawer's movement much smoother than with conventional slides. An independent spring-loaded latch is also fitted on each drawer. Thus, in an emergency, a mere push will close an open drawer fully...and lock it automatically!

Choice of Godrej locks

For protection against theft, a Godrej 6-lever high precision unpickable lock and a keyless Combination Lock (which offers nearly a million combinations) are standard fittings. For additional security, there is an option, at extra cost, on the Godrej 'Gordian' Lock which needs two keys to open.

Anti-rust treatment, attractive finish

Special anti-rust treatment and a dignified two-tone shade of paint inhibit corrosion while imparting a lasting elegant finish that goes well with any decor.

Countrywide after-sales service

A convenient network of 350 dealers, showrooms and service outlets covers the entire country—to ensure easy availability and prompt attention to you.



Great things come from *Godrej*[®]

Manufactured by:

GODREJ & BOYCE MANUFACTURING CO. PRIVATE LTD.,
Godrej Bhavan, 4-A Home Street, Fort, Bombay 400 001

(Rs lakhs)
2. As a measure of further relief to the small paper mills, the existing concession is being modified and linked with the annual installed capacity of the paper mills. The concession in duty varies from 75 per cent to 50 per cent of the duty leviable depending upon the capacity of the paper mill subject to the condition that bagasse, jute stalks, cereal straw or waste paper are used as raw material to the minimum extent of 50 per cent in the manufacture of paper. This concession will also not be applicable to paper boards and certain specified papers.

[Sl. No. (xi) of Part-I of the Third Schedule]

23

Cement, all varieties

15

(2) All others*

38.5% 40%

NOTE : The increase in duty affects only a few varieties of cement which are not under price control scheme.

[Sl. No. (xii) of Part-I of the Third Schedule]

26

†Steel ingots

Tonne

Rs 200/-

Rs 350/-

200

Effective rate

(i) For electric furnace scrap-based units

Tonne

Rs 50/-

Rs 180/-

(ii) Others

Tonne

Rs 200/-

Rs 330/-

It is proposed to transfer duty from the product stage [namely bars, rods, etc., falling under sub-item (ia) of Item No. 26AA] to the ingot stage with a view to ensure better revenue collection. In the process a large number of re-rollers of bars and rods, etc. will get exempted from the day to day excise formalities.

2. The present aggregate concessional duty (involving relief to the extent of Rs 150/- per tonne in favour of electric furnace scrap based units) is proposed to be continued even after the transfer of duty from the product stage to the ingot stage.

3. As a measure of relief to electric furnace scrap based units (mini-steel plants), it is proposed to exempt duty on specified types of steel melting scraps used in the manufacture of steel ingots or semi-finished steel.

4. In order to maintain the existing levels of duty on rails, sleeper bars and steel castings, necessary duty adjustments are being made at the ingot stage.

[Sl. No. (xiii) of Part-I of the Third Schedule]

26A Copper and copper alloy*

(1) in any crude form including ingots, bars, etc.

Tonne

Rs 5600/-

Rs 5600/-

(1a) Wire bars, wire rods, castings, not otherwise specified.

Tonne

Rs 5600/-

Rs 5600/-

(2) Manufactures, the following, namely : plates, sheets, circles, etc.

Tonne

Rs 6300/-

Rs 6300/-

(3) Pipes and tubes

28%

28%

Basic and auxiliary duties are being merged; but, the existing aggregate effective rates of duty remain unchanged.

[Sl. No. (xiv) of Part-I of the Third Schedule]

26AA Iron or Steel products, the following namely :*

(—) 200

(i) Semi-finished steel including blooms, etc.

Tonne

Rs 75/-@

Rs 350/-

(ia) Bars, rods, coils, wires, joists, girders, angles, etc.

,,

Rs 75/-@

Rs 350/-

(ii) Plates, sheets, etc.

,,

Rs 500/-@

Rs 1350/-

(iii) Flats, skelp and strips.

,,

Rs 500/-@

Rs 1350/-

(iv) Pipes and tubes, all sorts, etc.

,,

Rs 500/-@@

Rs 1000/-@@

(v) All other steel castings, n.o.s.

,,

Rs 200/-@

Rs 750/-

@ Plus the excise duty for the time being leviable on steel ingots.

@@ Plus the excise duty for the time being leviable on pig iron or steel ingots, as the case may be.

NOTE : The rates shown in column 5 are exclusive of auxiliary duty. Auxiliary duty is leviable on the products falling under this item at 100% of the effective basic rates of duty except in the case of skelp (at 70% of basic duty) and rails and sleeper bars used for railway tracks (at 75% of basic duty).

—Contd.

Effective rates (By Notifications)

Sub-items of
Item No. 26AA

(i) Semi-finished steel including blooms, billets, etc.	Tonne	Rs 330/-	NC
(ia) Bars, rods, coils, wires, etc.			
(a) bars, rods, etc.	"	Rs 330/-	NC
(b) rails, sleeper bars	"	Rs 175/-	NC
(ii) Plates, sheets, hoops			
(a) Uncoated plates	"	Rs 350/-	NC
(b) Cold rolled sheets	"	Rs 650/-	NC
(c) Galvanised plates, sheets etc.	"	Rs 850/-	NC
(d) Others	"	Rs 450/-	NC
(iii) Flats, skelp and strips			
(a) Skelp	"	Rs 552.50	NC
(b) Cold-rolled strips	"	Rs 650.00	NC
(c) Galvanised strips	"	Rs 850.00	NC
(d) Strips of 5 mm and above upto 10 mm. in thickness and of not less than 600 mm. in width.	"	Rs 350.00	NC
(e) Other hot rolled strips	"	Rs 450/-	NC
(f) Flats not exceeding 5 mm in thickness	"	Rs 450/-	NC
(g) Flats exceeding 5 mm in thickness but not exceeding 10 mm in thickness.	"	Rs 350/-	NC
(h) Flats exceeding 10 mm in thickness	"	Rs 330/-	NC
(iv) Seamless pipes and tubes	"	Rs 350/-	NC
(v) Steel castings	"	Rs 200/-	NC

- NOTE : (1) In the case of units manufacturing steel with the aid of electric furnaces out of old iron or steel ing scrap, etc. the aggregate duty relief amounting to Rs 150/- per tonne is proposed to be con
In other words, the proposed rates indicated in col 6 will be less by Rs 150/- per tonne wh
products are manufactured by electric furnace scrap based units.
- (2) The proposed duty rates indicated in col. 6 are inclusive of the duty leviable on steel ingots
iron, as the case may be.

[Sl. No. (xv) of Part-I of the Third Sc

20. 26B

Zinc*

(1) Unwrought including ingots, cakes, bars, etc.	Tonne	Rs 2625/-	Rs 2625/-
(2) Manufactures the following, namely—plates, sheets, circles, etc.	"	Rs 3150/-	Rs 3150/-
(3) pipes and tubes		35%	35%

Basic and auxiliary duties are being merged; but the existing aggregate effective rates of duty unchanged.

[Sl. No. (xvi) of Part-I of the Third S

21. 27

Aluminium*

(a) (i) in any crude form including ingots, bars, etc.		50% + Rs 2000/- per tonne	50% + Rs 2000/- per tonne
(ii) wire bars, wire rods and castings n.o.s.		50% + Rs 2000/- per tonne	50% + Rs 2000/- per tonne
(b) manufactures, the following namely, plates, sheets, circles and strips, in any form or size, n.o.s.		"	"

(Rs lakhs)

- (c) Foils, of a thickness not exceeding 0.15 mm
 (d) Pipes and tubes other than extruded pipes and tubes.
 (e) Extruded shapes and sections including extruded pipes and tubes.
 (f) Containers made of aluminium

” ”
 ” ”
 ” ”
 ” ”

NOTE : The description of (b) above is proposed to be widened to include shapes and sections, n.o.s.

Basic and auxiliary duties are being merged; but the existing aggregate effective rates remain unchanged, except in the case of aluminium sheets intended for use in the electrolysis process where the aggregate effective rate is proposed to be rounded off from 9.6 per cent *ad valorem* to 10 per cent *ad valorem*.

[Sl. No. (xvii) of Part-I of the Third Schedule]

33A

Wireless receiving sets, all sorts, etc.

neg.

- | | | |
|---|------------------|-----|
| (1) Broadcast television receiver sets | 20% | NC |
| (2) Radios (including transistor sets). | Rs 400/- per set | 35% |
| (3) Radiograms, etc. | Rs 400/- per set | 35% |
| (4) Others | 30% | 35% |

NOTE : (i) Tariff description of the item is proposed to be widened to include combinations incorporating tape or cassette players.

(ii) Tariff description of the sub-item (3) has been amended to exclude combinations of radios and tape recorders which will hereafter be covered under sub-item (4).

Effective rates

(A) T. V. Sets

- | | | |
|---|-----|-----|
| (a) of screen size of 36 cm. or less | | |
| (i) of a value not exceeding Rs 1400 per set. | 5% | NC |
| (ii) Others | | |
| (1) of a value exceeding Rs 1400/- per set but not exceeding Rs 1800/- per set. | 5% | 20% |
| (2) of a value exceeding Rs 1800/- per set. | 20% | NC |
| (b) of screen size exceeding 36 cm. | | |
| (i) of a value not exceeding Rs 1600/- per set. | 5% | NC |
| (ii) Others | | |
| (1) of a value exceeding Rs 1600/- per set but not exceeding Rs 1800/- per set. | 5% | 20% |
| (2) of a value exceeding Rs 1800/- per set. | 20% | NC |

(B) Radios including transistor sets—

- | | | Rate for small
scale units | Rate for
others |
|--|--|-------------------------------|--------------------|
| (i) sets of one or two bands | Different
specific rates
based on value
slabs | Nil | 15% |
| (ii) sets of 3 bands, of a value not exceeding Rs 250/- per set. | | 10% | 25% |
| (iii) sets of 3 bands, of a value exceeding Rs 250/- per set, and sets of 4 bands. | | 15% | 30% |
| (iv) sets of 5 bands or more | | 20% | 35% |

The duty exemption in favour of small scale radio/transistor manufacturers has so far been available on sets upto a price of Rs 225. Hereafter small scale units will have a duty advantage of 15 per cent over the organised units in the manufacture of sets of any value.

—Contd.

INDU is film.

It's about time we came out in the open and said so. Because, for the last three years, INDU's been making the entire range of photographic products.

And HPF is much more than the only company in India to manufacture film: it is one of just six companies in the world which has the sophisticated technology to make photo-sensitized film.

What makes INDU so special is this: there are only six countries in the world which manufacture their own film. And, India, thanks to INDU, is one of them.

INDU has slowly but steadily absorbed technology and know-how from its foreign collaborators, and is today making photo film to international standards.

INDU—the leader with the leaders:

Top professional photographers, film-makers, cinematographers, and radiologists turn to INDU. They know that, today, the name INDU is synonymous with quality.

The INDU range—your proof of quality:

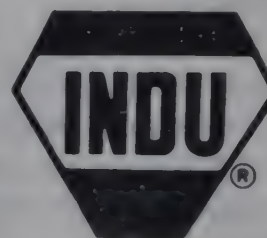
Photo. Cine. X-ray.

INDU Roll Film. INDU Bromide

Paper. INDU Cine Positive. INDU Cine Sound Negative. INDU X-ray. INDU Polyester Base X-ray. INDU Medium Contrast Graphic Arts Film. INDU Diapositive. INDU Document Copying Paper.

Each product offering you quality you can trust — because it's from INDU.

Yes, today INDU can make it on its own — and make it better. Which is why we say with confidence: **INDU IS FILM.**



**Hindustan Photo Films
Mfg. Co. Ltd:**

(A Government of India Enterprise)
Indunagar, Ootacamund 643 005.



SAA/HPF/2214

(Rs lakhs)

NOTE : The definition of small scale unit for duty purposes is proposed to be modified so that those manufacturing units falling in the small scale sector with capital investment on plant and machinery not exceeding Rs 10 lakhs and whose value of clearances in the preceding financial year did not exceed one crore rupees will be entitled to the concessional rates of duty for the first clearances upto a value of Rs 50 lakhs only in a financial year.

(C) Radiograms including radios or transistors with extra space in cabinet for fitting in record players or record changers.

The two specific rated slabs are proposed to be substituted by a single *ad volorem* rate of duty of 35%.

(D) Combination sets—

(i) Combinations of transistor sets and tape recorders (including cassette recorders and tape decks) or tape players (including cassette players)—

(a) of a value not exceeding Rs 500 each

D.R. 25%

(b) of a value exceeding Rs 500 each

D.R. 30%

(ii) Combinations of radios (including transistor sets) and TVs

30% 25%

(iii) Others

30% 35%

NOTE : (1) The proposed rates for (i) above are in lieu of the two existing specific rated slabs.

(2) The effective rates of duty will be 15% less for small scale units under (i) above. The small scale units will be identified on the basis of the criterion of capital investment on plant and machinery not exceeding Rs 10 lakhs provided the total value of clearances in the preceding financial year of such combination sets and tape recorders/cassette recorders, tape decks and tape/cassette players did not exceed Rs 50 lakhs, with the concessional rate applicable only to the first clearances up to a total value of Rs 25 lakhs.

[Sl. No. (xviii) of Part-I of the Third Schedule]

47	Slotted angles and channels made of steel	10%	@	(—) 14
59	Electric insulating tapes	10%	@	(—) 32

@Tariff Items 47 and 59 are proposed to be omitted from the excise tariff schedule. Such slotted angles and channels and electric insulating tapes will be covered hereafter under Tariff Item No. 68.

(Sl. No. (xix & xx) of Part-I of the Third Schedule]

**68	All other goods not elsewhere specified, etc.	1%	2%	3000
	(a) By an exemption notification, non-power operated units will be completely exempted from this levy.			
	(b) As a measure of relief to small units, it is proposed to give full exemption to goods produced by manufacturers whose value of clearances of all excisable goods in a year do not exceed Rs 30 lakhs.			
	(c) It is also proposed to give set-off of duty paid on goods falling under this item if these are used in the manufacture of any excisable goods.			
	(d) (i) Newspapers will continue to pay duty at 1%.			
	(ii) Exemption limit for daily newspapers which is presently 15000 copies per day has been raised to 50,000 copies per day.			
	(e) Power tillers are proposed to be exempted.			

[Sl. No. (xxi) of Part-I of the Third Schedule]
neg.

ID

Aerated Waters

Existing description and rates

Aerated waters, whether or not flavoured or sweetened and whether or not containing vegetable or fruit juice or fruit pulp—

(1) Aerated waters, in the manufacture of which blended flavouring concentrates in any form are used—

—Contd.

1	2	3	4	5	6	7
---	---	---	---	---	---	---

(Rs la

- (a) for each unit container containing 200 ml or less 25 p ✓
- (b) for each unit container containing more than 200 ml. 25 p + 10 p for every 100 ml or fraction thereof in excess of 200 ml. ✓
- (c) All others 55%
- (2) All others* 20% + 50% of effective basic duty as auxiliary duty. ✓

Proposed description and rates

Aerated waters, whether or not flavoured or sweetened and whether or not containing vegetable or fruit juice or fruit pulp—

- (1) Aerated waters, which are only charged with carbon dioxide gas under pressure and which contain no other added ingredient. 25% ✓

- (2) All others 55% ✓

Effective rate

- (1) Above 15% NC

The amendment of tariff description is of a clarificatory nature.

[Sl. No. (i) of Part-II of the Third Sched 48.

27. †14 Pigments, colours, paints, enamels, varnishes etc*

Existing classification and rates

- I (1) Pigments, colours, paints and enamels—
- (i) Zinc oxide, red lead, white lead & titanium dioxide white Qtl Rs 60.00
- (ii) Aluminium paste „ Rs 200.00
- (2) Dry colours, namely, the following, lead chromes and Brunswick green. „ Rs 50.00
- (3) Water paints—
- (i) Dry distemper including cement based water paints. „ Rs 50.00
- (ii) Oil bound distemper „ Rs 80.00
- (iii) Water pigment finishes for leather Litre Re 1.00
- (iv) Plastic emulsion paint „ Rs 3.00
- (4) Oil paints and enamels—
- (i) Tinting paste (Blue) Qtl Rs 200.00
- (ii) Stiff paints „ Rs 60.00
- (iii) Ready-mixed paints and enamels Litre Rs 2.00
- (4a) Dispersed organic pigments ordinarily used for the printing of textiles, whether in the form of powder, paste, or in emulsion. Qtl. Rs 600.00
- (5) Pigments, colours, paints and enamels, not otherwise specified. Litre or Qtl. Rs 2.00
- II Varnishes and blacks—
- (i) Varnishes Litre Re 1.00
- (ii) Bituminous and coal-tar blacks „ Re 0.50

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III Cellulose lacquers—

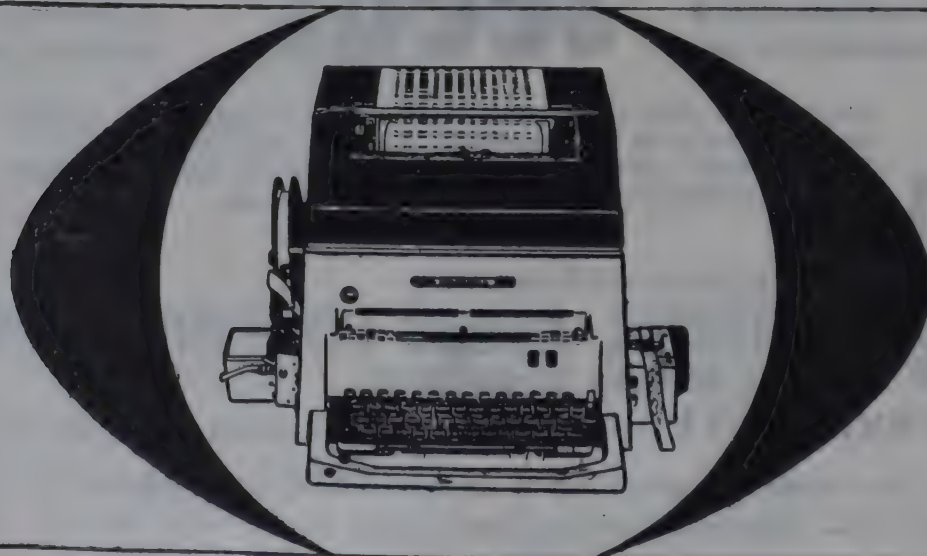
(i) Nitrocellulose lacquers, clear and pigmented and nitrocellulose ancillaries in liquid form.	Litre	Rs 3.75
(ii) Nitrocellulose ancillaries in semi-solid and pasty forms.	Qtl.	Rs 150.00
(iii) Cellulose lacquers, not otherwise specified	Litre	Rs 3.75

NOTE : This item does not include 'Carbon Black'.

Proposed classification and rates

I (1) Pigments, colours, paints and enamels—	10%
(i) Aluminium paste	5%
(ii) Pigments and colours not otherwise specified	
(2) Water paints—	10%
(i) Dry distemper including cement based water paints	15%
(ii) Oil-bound distemper	10%
(iii) Water pigment finishes for leather	15%
(iv) Plastic emulsion paints	
(3) Oil paints and enamels—	10%
(i) Tinting paste (Blue)	15%
(ii) Stiff paints	15%
(iii) Ready-mixed paints and enamels	10%
(4) Dispersed organic pigments ordinarily used for the printing of textiles, whether in the form of powder, paste or in emulsion.	

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II	(5) Paints and enamels, not otherwise specified	15%
	Varnishes and blacks—	
	(i) Varnishes	15%
	(ii) Bituminous and coal-tar blacks	5%
III	Cellulose Lacquers—	
	(i) Nitrocellulose lacquers clear and pigmented and nitrocellulose ancillaries in liquid, semi-solid or pasty form.	15%
	(ii) Cellulose lacquers, not otherwise specified	15%

NOTE : This item does not include "Carbon black".

The proposed *ad valorem* rates will also be the effective rates.

2. Certain slab exemptions which are currently in force are proposed to be withdrawn.

3. The following existing concessions for the small units are proposed to be retained :—

(i) Complete exemption to non-power operated units;

(ii) Complete exemption in favour of the manufacturer whose value of clearances in a financial year does not exceed Rs 2 lakhs.

[Sl. No. (ii) of Part-II of the Third Schedule]

*14H Existing description and rates

Compressed, Liquefied or Solidified gases, the following, namely—

215

(i) Oxygen		12%
(ii) Chlorine		12%
(iii) Ammonia		12%
(iv) Carbonic-acid (Carbon dioxide)	Kg	Rs 1.20
(v) Refrigerant gases, not otherwise specified, such as Sulphur-dioxide and Freon.		24%

Proposed description and rates

Gases, including liquefied or solidified gases, the following namely :

(i) Oxygen		12%
(ii) Chlorine		12%
(iii) Ammonia		12%
(iv) Carbonic-acid (Carbon-dioxide)	Kg	Rs 1.20
(v) Refrigerant gases, not otherwise specified, such as Sulphur dioxide and Freon.		24%
(vi) Acetylene (whether in dissolved condition or not).		12%

The scope of this item is being widened to include acetylene gas (whether in dissolved condition or not).

Exemption is being given to gases vented out into the atmosphere for different reasons. Exemption is also being given to gases produced by laboratories for their own use.

Acetylene produced in a portable acetylene generators by the reaction of water dripping slowly on Calcium Carbide is also being exempted from excise duty and excise licensing requirements.

[Sl. No. (iii) of Part-II of the Third Schedule]

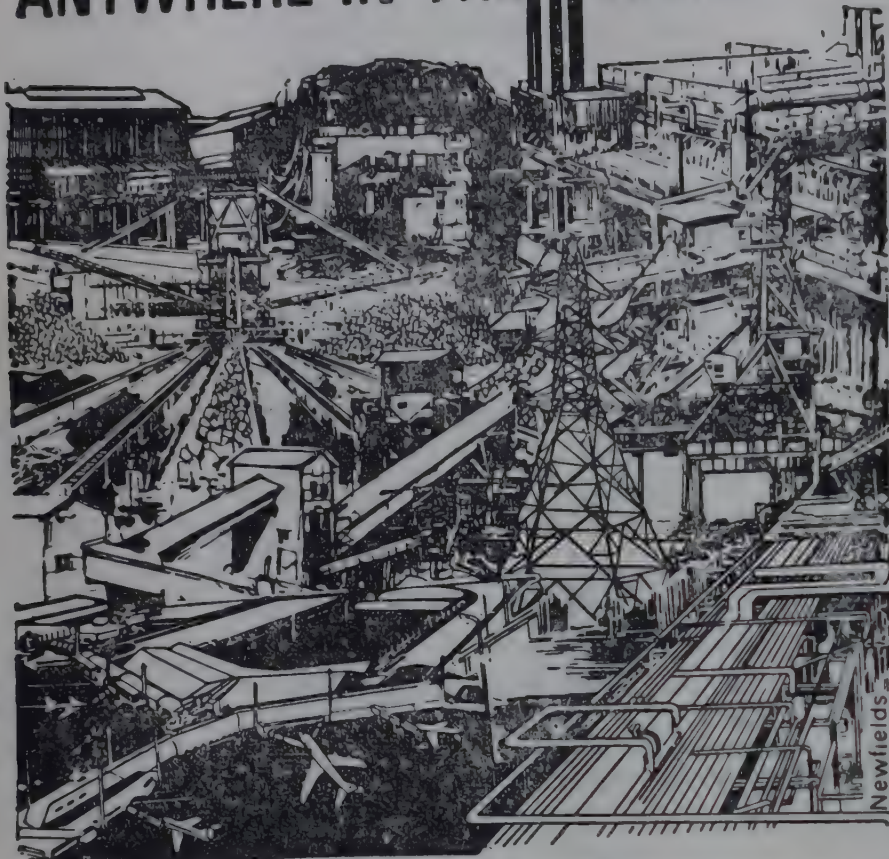
†15A Artificial or synthetic resins and plastic materials, etc.*

50

(1) Artificial or synthetic resins and plastic materials, etc.	53-1/3%	50%
(2) Articles made of plastics, all sorts, including tubes, rods, sheets, foils, sticks, etc.	53-1/3%	50%
(3) Polyurethane foam	70%	70%
(4) Articles made of polyurethane foam	70%	70%

—Contd.

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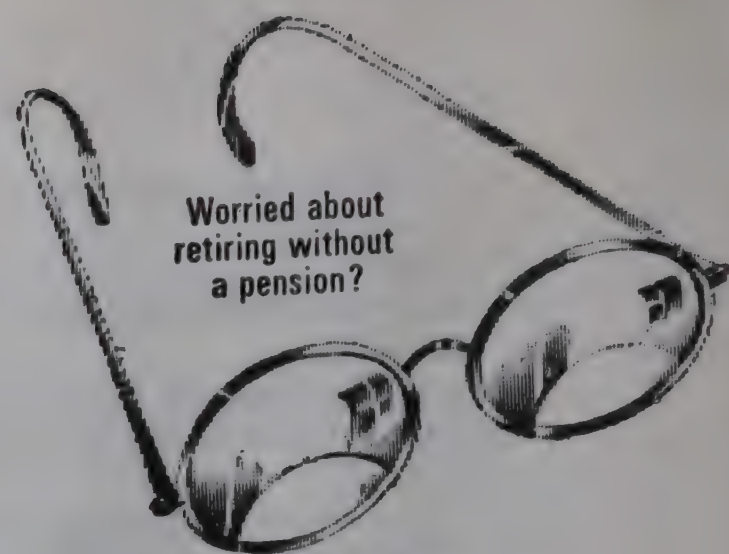
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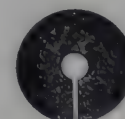
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The tariff description has been amended to widen the scope of the item and remove some doubts.

2. The effective rates continue practically unchanged except that basic and auxiliary duties have been merged.

[Sl. No. (iv) of Part-II of the Third Schedule]

- **15D** Polishes and creams for footwear, furniture, floors, leather, metals, motor vehicles and glass; scouring powders and pastes. 1% under @ 10% 45
item 68.

NOTE : This item does not include French polish.

@Subject to exemptions under item 68.

Polishes and creams etc. are being classified as a separate item and will hereafter be assessed to duty at 10%.

2. Suitable relief in duty is being provided to small manufacturers of polishes and creams, etc.

[Sl. No. (v) of Part-II of the Third Schedule]

18 Existing classification and rates

Rayon and synthetic fibres and yarn, etc.

- (i) Fibres and yarn, other than textured yarn
(ii) Textured yarn produced out of base yarn

Kg Rs 85.00

The duty for the time being leviable on the base yarn, if not already paid + Rs 20/- per kg.

(—) 300

(Textured yarn)

(—) 175

(Viscose spun yarn in hanks)

—Contd.

New Deal for Small Farmers....

Andhra Pradesh has been one of the pioneer States in India in the field of Cooperation. A second look at the loans issued by the Primary Agricultural Development Banks (PADBS) as detailed below is very encouraging :

Year	No. of PADBS	Loans advanced in Rupees (in crores)
1	2	3
First Five-Year Plan, 1951-56	56	256.02
Second Five-Year Plan 1956-61	103	477.85
Third Five-Year Plan 1961-66,	173	3,746.18
Annual Plans 1966-67 to 1968-69	180	4,128.64
Fourth Plan 1969-74	184	7,435.23
Fifth Plan 1st Year 1974-75	190	1,886.16
Fifth Plan 2nd Year 1975-76	201	2,723.60

Two key schemes, the Small Farmers Development Agencies, and the Marginal Farmers and Agricultural Labourers Development Agencies were introduced during the Fourth Plan for generating employment and additional income in rural areas.

So far, 14 schemes with an outlay of Rs. 846.51 lakhs have been formulated, one for each district for small farmers.

**The Director of
Information and Public Relations,
Government of Andhra Pradesh,
Hyderabad.**

		Kg	Rs 105.00	
	(iii) Other textured yarn			
	Proposed classification and rates			
18 I.	Man-made fibres, other than mineral fibres—	Kg	Rs 85.00	
	(i) non-cellulosic	Kg	Rs 4.00	
	(ii) cellulosic			
II.	Man-made filament yarns—			
	(i) non-cellulosic—		Rs 85.00	
	(a) other than textured	Kg	Rs 95.00	
	(b) textured	Kg	Rs 20.00	
	(ii) cellulosic	Kg	Rs 85.00	
	(iii) metallized			
III.	Cellulosic spun yarn—			
	Yarn in which man-made fibre of cellulosic origin predominates in weight, etc.			
	(i) not containing or containing not more than one-sixth by weight of non-cellulosic fibre calculated on the total fibre content.		5.5 paise per count per kg	
	(ii) containing more than one-sixth by weight of non-cellulosic fibre calculated on the total fibre content.		Rs 18/- per kg.	

NOTE : "count" means the English count.

Effective rates

(A) Cellulosic spun yarn—

Existing slabs			Rs
of or more	Less than		
(NF Counts)			
84	—	Kg	3.25
69	84	Kg	2.60
51	69	Kg	2.30
40	51	Kg	1.95
34	40	Kg	1.30
29	34	Kg	1.20
22	29	Kg	0.55
14	22	Kg	0.25
—	14	Kg	0.15

Proposed slabs			
Exceeding	Not exceeding		
(English count)	(English count)		

—	25	Kg	1.5 paise per count.
25	35	Kg	40 paise plus 4 paise per count exceeding 25.
35	45	Kg	80 paise plus 8 paise per count exceeding 35.
45	55	Kg	160 paise plus 14 paise per count exceeding 45.
55		kg	5.5 paise per count.

(B) Duty on cellulosic spun yarn in plain (straight) reel will be exempted completely. In the case of c hank yarn the duty will be reduced by 30 paise per kg, where the duty is more than 30 paise and will be exempted where the duty is not more than 30 paise per kg.

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As a measure of rationalisation and simplification it is proposed in respect of cotton composite transfer the yarn stage duty to the fabric stage and as a consequence to exempt such cellulosic spun yarn used for weaving of cotton fabrics in a composite mill.

(C) (i) Textured yarn produced out of base yarn

The duty for the time being leviable on the base yarn, if not already paid + Rs 10 per kg.	The duty for the time being leviable on the base yarn, if not already paid + Rs 5/- per kg.
Rs 95/- per kg	Rs 90/- per kg.

(ii) Other textured yarn

[Sl. No. (vi) of Part-II of the Third Schedule]

32. 18A Existing classification and rates

Cotton twist, yarn and thread, all sorts, containing not less than ninety per cent by weight of cotton, etc.

(1) of counts 29 or more	Kg	Rs 10/-
(2) of counts less than 29	Kg	Rs 4/-

(—)
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(Rs lakhs)

NOTE : "Count" means the size of grey yarn (excluding any sizing material) expressed as the number of 1000 metre hanks per one-half kilogram. (yarn consumed by powerlooms, hosiery etc.)

Proposed classification and rates

Cotton yarn all sorts—

Yarn, in which cotton predominates in weight, etc.

(i) not containing or containing not more than one-sixth by weight of non-cellulosic fibre calculated on the total fibre content. 5.5 paise per count per kg.

(ii) containing more than one-sixth by weight of non-cellulosic fibre calculated on the total fibre content. Rs 18/- per kg.

NOTE : For the purposes of this item "count" means the English Count.

Effective rates

(a) Existing slabs

Existing rates

Description		Single yarn whether grey or bleached etc. in hanks		All others
Cotton twist, yarn or thread of or more but less than				
(NF counts)				(Rs per kg)
69	—	—	—	5.00
51	69	—	—	4.00
40	51	—	—	3.00
34	40	—	—	2.00
29	34	—	—	1.00
22	29	—	—	0.60
14	22	—	—	0.20
—	14	—	—	0.10

Proposed slabs

Description Cotton yarn—

Proposed rates (per kilogram)

- | | |
|---|---|
| (i) of counts not exceeding 25 | 1.5 paise per count |
| (ii) of counts exceeding 25 but not exceeding 35 | 40 paise plus 4 paise per count exceeding 25. |
| (iii) of counts exceeding 35 but not exceeding 45 | 80 paise plus 8 paise per count exceeding 35. |
| (iv) of counts exceeding 45 but not exceeding 55 | 160 paise plus 15 paise per count exceeding 45. |
| (v) of counts exceeding 55 | 5.5 paise per count. |

1. Straight reel hank yarn generally consumed by the handloom sector continues to be exempted.
2. The duty on cross-reel hank yarn will be reduced by 30 paise per kg where duty is more than 30 paise per kg and will be fully exempted where duty is not more than 30 paise per kg.
3. As a measure of rationalisation and simplification it is proposed in respect of composite mills to transfer the yarn stage duty to the fabric stage, and as a consequence to exempt such yarn when used for weaving of cotton fabrics in a composite mill.

[Sl. No. (vii) of Part-II of the Third Schedule]

(—)800

18B

Existing classification and rates

Woollen yarn, all sorts, including knitting wool, containing not less than ninety per cent by weight of wool, etc.

—Contd.

- (1) Worsted yarn—
 (a) of 48 s counts and more 30%
 (b) of less than 48 s counts 20%
 (2) Others 10%

NOTE : 'Count' means the size of single yarn expressed as the number of 550 yard hanks per pound.

Proposed classification and rates

Woollen and acrylic spun yarn—

Yarn, in which wool or acrylic fibre or both pre-dominate in weight, etc.

Rs 20/- per kg.

- (i) not containing or containing not more than one-sixth by weight of non-cellulosic fibre (other than acrylic fibre) calculated on the total fibre content.

- (ii) containing more than one-sixth by weight of non-cellulosic fibre (other than acrylic fibre) calculated on the total fibre content.

Rs 18/- per kg.

NOTE : Woollen and acrylic spun yarn shall be deemed to include woollen and acrylic knitting yarn.

It is proposed to completely exempt the woollen and acrylic yarn falling under sub-item (i) of the item a part of transfer of excise duty on specified woollen/acrylic yarn to the acrylic fibre and imported wool.

[Sl. No. (viii) of Part-II of the Third Schedule]

34. 18C

Existing classification and rates

Silk yarn, all sorts, containing not less than ninety per cent by weight of silk (including silk noil) calculated on the total fibre content, etc.

20%

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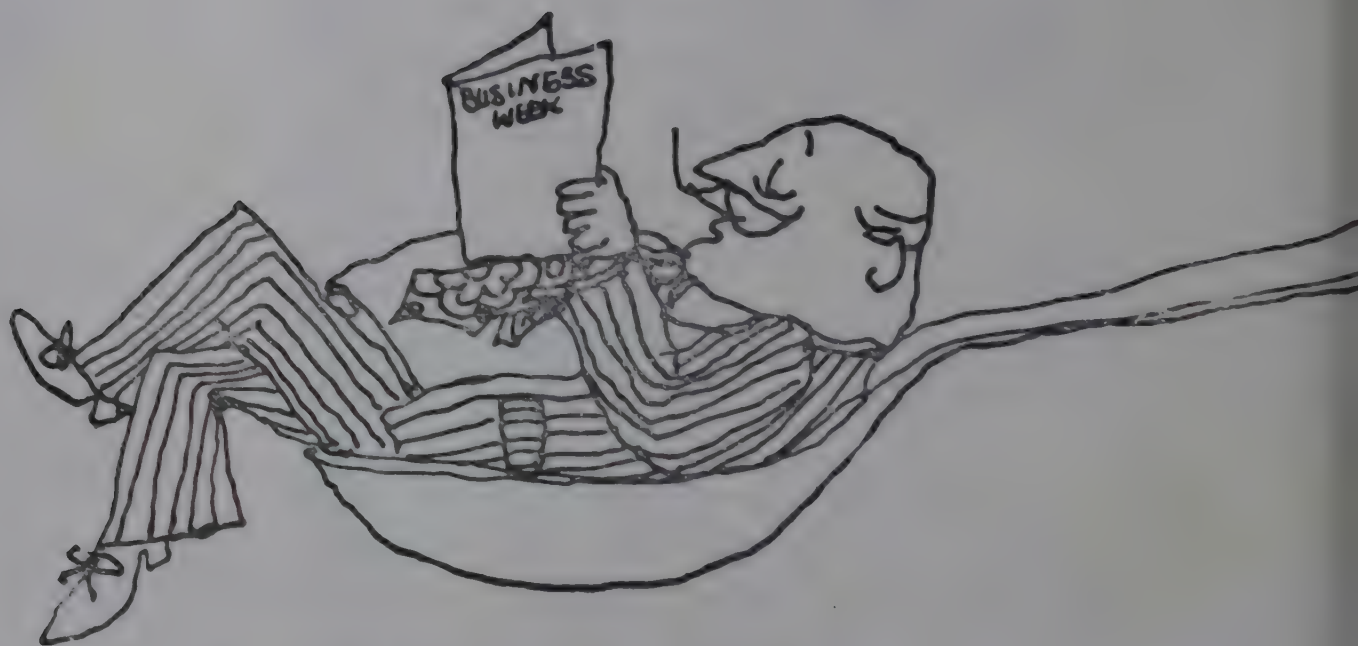
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2	3	4	5	6	7
					(Rs lakhs)
	Proposed classification and rates				
	Silk yarn, all sorts—				
	Yarn, in which silk (including silk noil) predominates in weight, etc.				
	(i) not containing or containing not more than one-sixth by weight of non-cellulosic fibre calculated on the total fibre content.		20%		
	(ii) containing more than one-sixth by weight of non-cellulosic fibre calculated on the total fibre content.			Rs 18/- per kg.	
	Silk yarn falling under sub-item (i) of this item will continue to be exempted.				
	[Sl. No. (ix) of Part II of the Third Schedule]				
18D	Existing description and rate				
	Jute twist, yarn, thread, rope and twine, all sorts, containing not less than ninety per cent by weight of jute, etc.*	Tonne	Rs 600/-		
	Proposed description and rate				
	Jute yarn, all sorts—			Rs 600/-	
	Yarn, in which jute (including Bimlipatam jute or mesta fibre) predominates in weight, etc.	„			
	NOTE : Jute yarn shall include jute twist, thread, rope and twine.				
	[Sl. No. (x) of Part-II of the Third Schedule]				
	(—)350				
18E	Existing description and rate				
	Yarn, all sorts, not elsewhere specified, etc.	Kg	Rs 50/-		
	Proposed description and rate				
	Non-cellulosic spun yarn—				
	Spun (discontinuous) yarn, in which man-made fibres of non-cellulosic origin, other than acrylic fibre, predominate in weight, etc.	Kg		Rs 24/-	
	As a part of transfer of excise duty from acrylic/woollen yarn to the acrylic fibre/imported wool stage, it is proposed to exempt acrylic/woollen yarn hitherto paying duty under this item.				
	[Sl. No. (xi) of Part-II of the Third Schedule]				
	neg.				
18F	I Flax yarn—				
	Yarn in which flax predominates in weight etc.			5.5 paise per count per kg.	
	(i) not containing or containing not more than one-sixth by weight of non-cellulosic fibre calculated on the total fibre content.				
	(ii) containing more than one-sixth by weight of non-cellulosic fibre calculated on the total fibre content.			Rs. 18/- per kg.	
	II Ramie yarn—				
	Yarn in which ramie predominates in weight, etc.	Kg		Rs 18/-	
	[Sl. No. (xii) of Part-II of the Third Schedule]				
	4100				
	(composite mill fabrics)				
	(—)250				
	—Contd.				
†19	I Cotton fabrics—(i.e. other than embroidery in piece etc. and fabrics impregnated etc.)				

I (1) Coating, suiting, tusser, corduroy, etc.*

B 15%
A $2\frac{1}{2}\%$
[AY $33\frac{1}{3}\%$
of

basic duty]

B 15%

(1A) Cotton fabrics other than those, falling under
(1) containing 30% or more by weight of
fibre, or yarn or both, of non-cellulosic origin*

A $2\frac{1}{2}\%$
[AY $33\frac{1}{3}\%$ of
basic duty]

(2) Others—

(a) Superfine fabrics

B 15%

A $2\frac{1}{2}\%$

(b) Fine fabrics

B 15%

A $2\frac{1}{2}\%$

(c) Medium-A fabrics

B 3%

A 2%

(d) Medium-B fabrics

B 3%

A 1%

(e) Coarse fabrics

B 3%

A $\frac{1}{2}\%$

(Rs
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fabrics).

"Generate" better performance with Lucas-TVS dynamos.

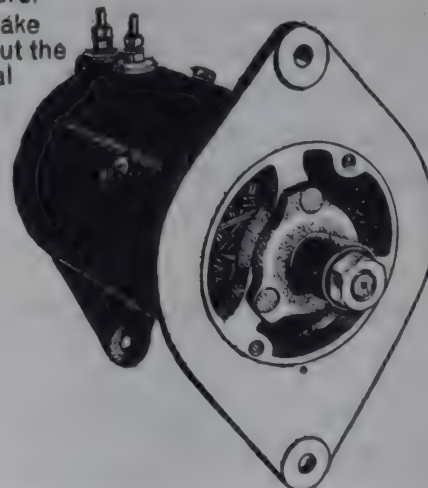
There are over 600,000 Lucas-TVS dynamos fitted in the vehicles on the road, a large percentage of them as Original Equipment.

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a genuine Lucas-TVS service part. You could avoid pointless risks and heavy expenditure.

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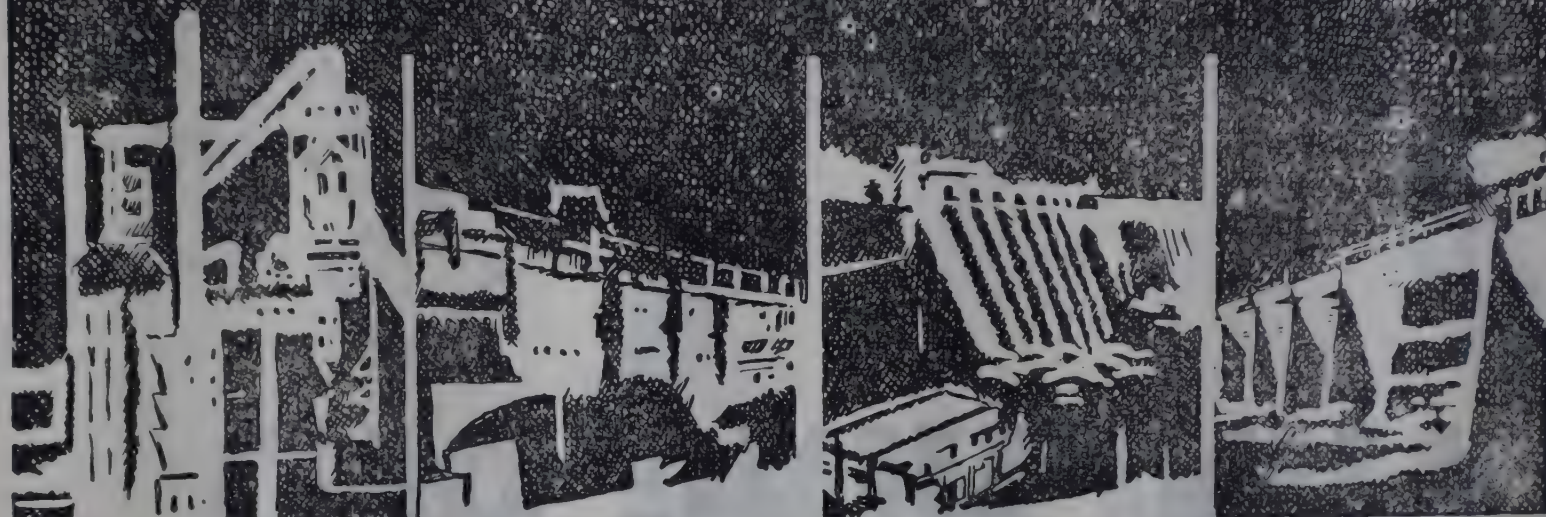
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Padi, Madras 50



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for investment
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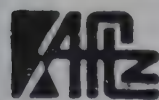


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to maximise
**EXPORT
EARNINGS**

offering a package of
incentives and
exemption from customs
excise duties etc.

FOR DETAILS CONTACT :



Development Commissioner,
Kandla Free Trade Zone,
Gandhidham (Kutch) Gujarat.

(Rs lakhs)

Existing classification and rates

(f) Cotton fabrics, n.o.s.

B	15%
A	2½%

Proposed classification and rates**I Cotton fabrics other than—**

20%B

(i) embroidery, in the piece, in strips or in motifs and

5%A

(ii) fabrics impregnated, coated or laminated with preparations of cellulosic derivatives or of other artificial plastic materials.

It is also proposed to change the existing tariff description to include under this item fabrics (i) in which cotton predominates in weight; or (ii) where it contains more than 40% by weight of cotton and 50% or more by weight of non-cellulosic fibre or yarn.

Effective rates

(A) The present category-wise *ad valorem* rates have been replaced by the following *ad valorem* rates, based on the value of fabrics :—

Cotton fabrics whose value per square metre—		(B + A)
exceeds	does not exceed	
Rs	Rs	
—	2	2%
2	3	3.5%
3	4	5%
4	5	6.5%
5	6	8.0%
6	7	9.5%
7	8	11%
8	9	12.5%
9	10	14%
10	11	16%
11	12	18%
12		20%

NOTE : (i) The amount of duty so levied shall be accounted for under 'Basic' and 'Addl' duty in the ratio of 80 : 20 respectively;

(ii) In the case of handloom fabrics, the duty shall be 55% and 40% of the above rates if processed by composite mills and by independent processors (with the aid of power) respectively;

(iii) In the case of powerloom fabrics the rate of duty shall be 65% and 50% of the above rates if processed by composite mills and independent processors (with the aid of power) respectively.

(B) Fents and Rags

Suitable effective rates have been prescribed for fents and rags.

(C) Unprocessed cotton fabrics manufactured on powerlooms (factories without spinning or processing plants) are proposed to be exempted from both basic and additional duty of excise.

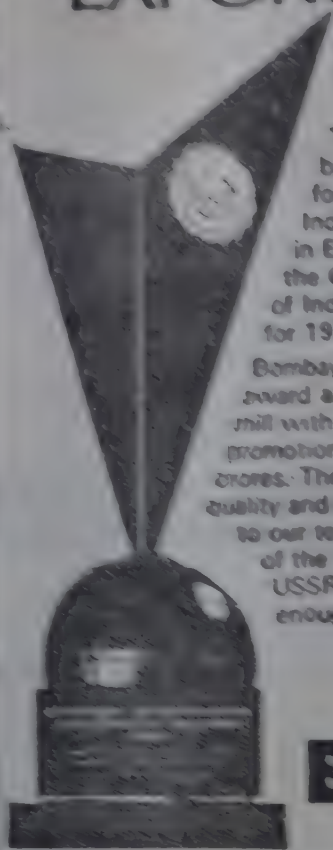
(D) Cotton fabrics when processed without the aid of power or steam are also proposed to be exempted from both basic and additional duty of excise.

[Sl. No. (xiii) of Part-II of the Third Schedule and Sl. No. (ii) of Part-II of the Fourth Schedule]

20	Silk fabrics	—
21	Woollen fabrics	neg.
22	Rayon or Artificial Silk fabrics	neg.

—Contd.

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Bombay Dyeing has received, on an average, an award a year since 1969. We're the only textile mill with a consistent record of growth in export promotion. Sales abroad for 1974-75 touched Rs. 16 crores. The exceptionally high standard of fabric quality and design have brought world recognition to our textiles even in the sophisticated markets of the USA, UK, Canada, Germany, France, USSR, Poland and Australia. That's reward enough for us.

BOMBAY DYEING 



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from

MYSORE SALES INTERNATIONAL LIMITED
36, CUNNINGHAM ROAD,
BANGALORE 560 052

(Rs lakhs)

A Jute manufactures

(2) Others*

Tonne

Rs 600/-

Rs 600/-

Tariff descriptions of these items (20, 21, 22 and 22A) have been amended with a view to their rationalisation.

[Sl. No. (xiv to xvii) of Part II of the Third Schedule and Sl. No. (iii) of Part II of the Fourth Schedule]

AA Existing description

neg.

Textile fabrics, n. e. s.

15%

Proposed description

(i) Flax fabric—in which flax predominates in weight.

15%

(ii) Ramie fabric—in which ramie predominates in weight.

15%

The amendment of tariff description is of a clarificatory nature and has no revenue significance

[Sl. No. (xviii) of Part II of the Third Schedule]

Existing classification and rates

Tin plate and tinned sheets including tin taggers and cuttings of such plates, sheets or taggers*.

Tonne

Rs 600/- + 70% of effective basic duty as auxiliary duty.

(—) 4

Proposed classification and rates

Tin plate and tinned lacquered or varnished sheets including tin taggers, etc.

(1) Tin plate and tinned sheets including tin taggers and cuttings of such plates, sheets or taggers.

Tonne

Rs 1750/-

(2) Lacquered sheets, varnished sheets, including cuttings of lacquered sheets and varnished sheets.

Tonne

Rs 1250/-

Effective rate

(1) above

Tonne

Rs 884/-

Rs 880/-

(2) above

E

E

The amendment of tariff description widens the coverage: but effective duty practically remains unchanged.

[Sl. No. (xix) of Part II of the Third Schedule]

30 Electric motors, all sorts and parts thereof, namely

neg.

Existing classification and rates

(1) Those designed for use in circuits of less than 10 amperes and at a pressure not exceeding 250 volts.

20%

(2) Those designed for use in circuits at a pressure exceeding 400 volts, and

(i) with a rated capacity not exceeding 10 H.P.

15%

(ii) exceeding 10 H.P.

10%

—Contd.

1	2	3	4	5	6	(Rs)
				20%		
		(3) All others		20%		
		(4) Parts of electric motors				
		Proposed classification and rates				
		A. Motors which operate on alternating current—			20%	
		(1) Single phase motors				
		(2) Three phase motors			15%	
		(i) for rated output upto and including 7.5 KW continuous rating or, in the case of short time or intermittent rated motors, its equivalent continuous rating.				
		(ii) for rated output above 7.5 KW continuous rating or, in the case of short time or intermittent rated motors, its equivalent continuous rating.			10%	
		B. Motors which operate on direct current—				
		(i) with rated output not exceeding 7.5 KW			20%	
		(ii) with rated output exceeding 7.5 KW			10%	
		C. Parts of electric motors			20%	
		Tariff description has been amended with a view to its rationalisation. Though there are some changes in the duty rates of individual items, there is no overall revenue effect.				
				[Sl. No. (xx) of Part II of the Third Schedule]		
46.	33**	Electric fans, etc.				6
		(1) Table, Cabin, Carriage, Pedestal, etc.		15%	NC	
		Effective rate				
		(1) above		5%	10%	
		Regulators for electric fans, all sorts, have been specifically mentioned in the tariff description. This amendment is of a clarificatory nature.				
				[Sl. No. (xxi) of Part-II of the Third Schedule]		
47.	33F	Musical systems commercially known as stereo or hi-fi systems, etc.				2
		(1) Stereo or hi-fi amplifiers		—	35%	
		(2) Speakers and speaker systems housed in acoustically designed enclosures, etc.		—	35%	
		It is proposed to fix a lower rate of duty at 20% on such goods produced by the small scale units. Small scale units will be identified on the basis of capital investment on plant and machinery not exceeding Rs 50 lakhs provided the value of clearances in the preceding financial year of such stereo systems did not exceed Rs one crore with the concessional rate applicable only to the first clearances upto a value of Rs 50 lakhs.				
				[Sl. No. (xxii) of Part-II of the Third Schedule]		
48.	†34	Motor Vehicles, etc.				
		Existing classification and rates				
		(1) Auto-cycles, motor-cycles, scooters, etc.		10%		
		(2) Motor vehicles of not more than 16 H.P. by R. A. C. rating		25%		
		(3) Motor cars of more than 16 H.P. by R.A.C. rating		40%		
		(3a) Tractors, including agricultural tractors		15%		
		(4) Motor vehicles n.o.s.		15%		

When you consider Company assets

FINANCIAL HIGHLIGHTS		Rupees in lacs	
		1975-76	1974-75
Sales and Direct Sales Compensation		7174.03	5440.91
Investment Income		43.90	22.67
Emoluments to Employees		299.51	267.66
Profit before taxation		286.72	255.00
Estimated taxes		129.50	143.00
Proposed dividends		37.60	37.60
Shareholders' funds		737.43	662.95
Borrowings		706.66	500.49
Total capital employed		1444.09	1163.44
Number of shareholders at year end		3446	3281

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*Local taxes, delivery charges and bus body cost extra.

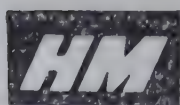
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- Roomy interior with ample leg space.
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Prices are subject to change without notice.

CC/HM-6/77

(Rs lakhs)

Proposed classification and rates**I. Motor vehicles (other than tractors) designed for use upon roads.**

- | | |
|--|------|
| (1) Two-wheeled and three-wheeled motor vehicles. | 12½% |
| (2) Motor vehicles of engine capacity not exceeding 2500 cc | |
| (i) Motor vehicles with body | 17½% |
| (ii) Other motor vehicles (including chasis whether or not with cab) | 20% |
| (3) Motor vehicles of engine capacity exceeding 2500 cc | 17½% |

II. Tractors, including agricultural tractors.

15%

Effective rates

- | | | |
|---|---|-------|
| I. (1) Two-wheeled and three-wheeled motor vehicles. | 9% | 12½% |
| (2) Motor vehicles (with body), of engine capacity not exceeding 2500 cc— | | |
| (i) Saloon cars | 15%
(on motor cars upto 16 H.P.) | 17½% |
| (ii) Others | 15%
(upto 16 H.P.) | NC |
| (3) Motor vehicles of engine capacity exceeding 2500 cc | | |
| (i) Saloon cars | 40%
(on motor cars of more than 16 H.P.) | 17½%£ |
| (ii) Others | 12% | NC |
| II. Tractors, including agricultural tractors, of— | | |
| (a) 50 D. B. H. P. or less | 10% | NC |
| (b) Exceeding 50 D. B. H. P. | | |
| (i) if used solely for agricultural purposes | 10% | NC |
| (ii) Others | 12% | 12½% |

£Indigenously manufactured saloon cars do not fall under this group. The rate is relevant only for imported cars from the countervailing duty angle. By separate exercise on the customs side, the customs duty is being effectively raised to off-set the effect of reduced countervailing duty.

NOTE : (i) The criterion of H.P. as per R.A.C. rating is being replaced by the more rational criterion based on engine cubic capacity.

(ii) Recategorisation of vehicles of engine capacity not exceeding 2500 cc under the proposed sub-item (2) will mean that certain types of vehicles of more than 16 H.P. but with engine capacity not exceeding 2500 cc will now bear a higher rate of duty.

(iii) Duty exemption on tyres, tubes and storage batteries, which are used as original equipment parts in the manufacture of two-wheelers or three-wheelers is being provided (shown under the relevant tariff items).

[Sl. No. (xxiii) of Part-II of the Third Schedule; neg.]

34A Motor vehicle parts etc.

The tariff description has been amended as a consequence of the revision of tariff item No. 34 (vide Sl. No. 48).

[Sl. No. xxiv) of Part II of the Third Schedule]
—Contd.



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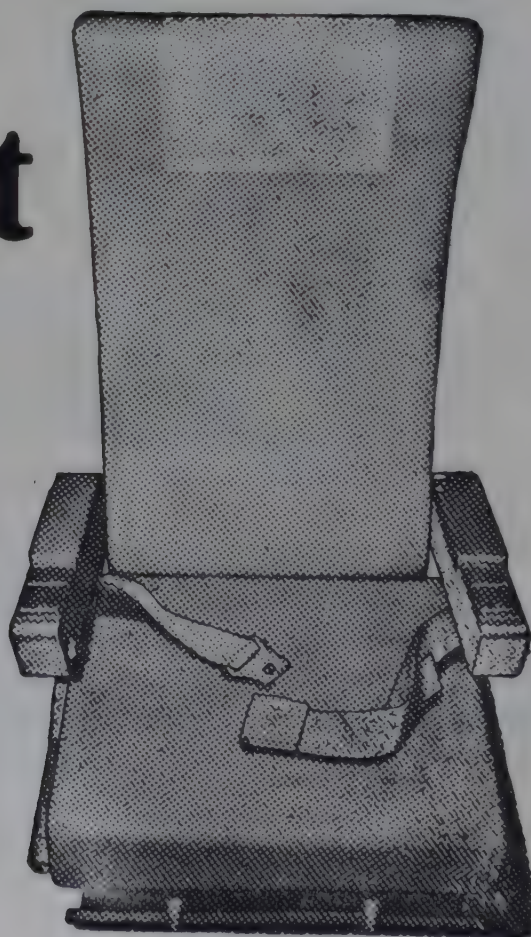
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SEP/PA3/77

Heir- apparent to this throne.



You.

171A-100A


Indian Airlines

**37

Cinematograph films

(Rs lakhs)

I. Unexposed

2 paise per metre

NC

700

II. Exposed

of a width of 30 mm or higher	below 30 mm in width
-------------------------------------	-------------------------

- | | | | |
|---|------------------|--------------------|--------------------|
| (1) Newsreels and shorts not exceeding 500 metres | Re 1/- per metre | 50 paise per metre | 50 paise per metre |
| (2) Feature films, advertisement shorts, and films n.o.s. | Rs 2/- per metre | Re 1/- per metre | 10% |

The present effective rates under sub-item II(2), which are based on the length, width, number of prints and whether the film is made in black and white or in colour, are proposed to be substituted by an *ad valorem* levy.

- (2) Under sub-item II(2), the effective duty is being restricted to the duty calculated on the cost of production.

[Sl. No. (xxv) of Part-II of the Third Schedule]

37AA

Tape recorders (including cassette recorders and tape decks) and tape players (including cassette players).

Rs 200/- each

30%

neg.

The tariff description has been amended to include tape decks and also tape or cassette players which do not have recording mechanism but on which pre-recorded tapes or cassettes can be played.

Existing rates

Proposed rates

Effective rates

Rate for
small
scale unitsRate for
othersRate for
small
scale unitsRate for
others

Tape recorders (including cassette recorders and tape decks) and tape players (including cassette players)—

- (i) of value not exceeding Rs 500/- each

Rs 50/- each
[1% on tape/
cassette
players]

Rs 100/- each

10%

25%

- (ii) of value exceeding Rs 500/- each

Rs 50/- each
[1% on tape/
cassette
players]

Rs 100/- each

15%

30%

NOTE : The definition of small scale unit for duty purposes is proposed to be modified so as to restrict the concessional duty to only such small scale manufacturers (as judged by the investment on plant and machinery) whose value of clearances of tape cassette/recorders, tape/cassette players and tape decks is below certain specified limits.

[Sl. No. (xxvi) of Part-II of the Third Schedule]

**44

Watches, clocks and time-pieces primarily designed to show the time of day.

1% under Item
68

10%

250

**45

Machinery and appliances for determination of weight including parts of weigh-bridges.

1% under Item
68

10%

115

NOTE : This item does not include scales having arms of equal length which determine weight by balancing the object against weight.

—Contd.

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KESORAM CEMENT

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**51A	Existing classification and rate	(Rs lakhs)
	Cutting tools, the following namely :—	
	(1) Files and rasps (2) Hacksaw blades (3) Twist drills (4) Reamers (5) Milling cutters	10% 275
	Proposed classification and rate	
	Tools, the following namely :—	
	(i) Hand tools, the following: pliers (including cutting pliers), spanners, wrenches, files and rasps, screw drivers (including ratchet types);	1% under item 68 except those hitherto covered under item 51A, which pay 10% 10%
	(ii) Tools for working in the hand, pneumatic or with self confined non-electric or electric motor;	
	(iii) Tools designed to be fitted into hand tools, machine tools or tools falling under sub-item (ii), including dies for wire-drawing, extrusion dies for metals, and rock drilling bits; and	
	(iv) Industrial knives and blades for hand or machine saws.	
61**	Electric lighting fittings, namely :— Switches, plugs and Sockets, all kinds; chokes and starters for fluorescent tubes.	1% under item 68 10% 175
	(i) (a) Watches, clocks, etc.; (b) machinery and appliances for determination of weight, etc. and (c) electric lighting fittings, etc. which were hitherto covered under Tariff Item No. 68 and subject to the exemptions available under that item, and which were paying a duty of 1%, are now being specified as separate items i.e. 44, 45 and 61 respectively and will hereafter be assessed to duty at 10%.	
	(ii) Tariff description of Item No. 51A is being widened to include certain specified items of tools which were hitherto covered under tariff item No. 68 and, subject to the exemptions available under that item, were paying duty at 1%. These will now be assessed to duty at 10%.	
	(iii) Suitable relief in duty has been provided to small manufacturers of electric lighting fittings and tools.	
	[Sl. Nos. (xxvii to xxix) of Part-II of the Third Schedule]	

B. CHANGES PROPOSED BY THE NOTIFICATIONS

12	Vegetable non-essential oils	(—) 16
	It is proposed to completely exempt solvent extracted processed groundnut oil, copra oil, and kardi seed oil, subject to existing conditions, as these are generally consumed by the poor and lower middle class.	
16	Tyres	(—) 140
	Tyres (including tubes) intended to be used as original equipment parts in the manufacture of two-wheeled and three-wheeled motor vehicles are being exempt from excise duty.	
29A	Refrigerating and Air-conditioning Appliances and Machinery, all sorts and parts thereof—	(—) 15
	(1) refrigerators and other refrigerating appliances, etc.	75% NC

—Contd.

1	2	3	4	5	6
		Effective rate		40%	20%
		Water coolers			
		Water coolers are generally used to provide clean and cool drinking water in educational institutions, factories, railway stations, etc. as an amenity measure.			
4.	30A	Power driven pumps, etc.		20%	NC
		Effective rate			
		(a) Power-driven pumps primarily designed for handling water, etc.		10%	5%
		(b) Others		E	5%
		At present power driven pumps primarily designed for handling water etc. are alone dutiable amounting a duty of 10%. It is proposed, as a measure of relief to the agricultural sector, to reduce this duty to 5%. At the same time it is proposed to withdraw the exemption hitherto available to power driven pumps those designed for handling water etc. and to subject them also to the reduced rate of duty of 5%.			
5.	31	Electric batteries, etc.			
		Storage batteries intended to be used as original equipment parts in the manufacture of motor vehicles are being exempt from excise duty.			
6.	33D	Office Machines—			
		Electronic calculating machines—			
		(i) machines (other than slide rule calculating machines) of a value not exceeding Rs 175/- each.		15%	5%
		(ii) Slide rule calculating machine of a value not exceeding Rs 450/- each.		15%	5%
		(iii) Others		15%	NC
		The proposed concessional duty is intended to be a fiscal measure for bringing down the prices of calculators.			
7.	37A	Gramophones and parts thereof—			
		As a sequel to the insertion of a new Tariff Item No. 33F, amplification devices designed for room and speakers and speaker-systems are proposed to be deleted from the list of the dutiable parts accessories of gramophones, record players, etc.			
8.	38	Matches			
		As a measure of relief to small cottage units producing matches, it is proposed to increase the duty on matches, from 55 paise to Rs 1.10 per gross of boxes of 50 matches.			
9.	43	Wool tops, etc.	Kg.	Rs 10.00	NC
		Effective rate	Kg.	Rs 10.00	Rs 5.00
		The proposed reduction is as a part of the proposal to shift the duty from wool tops and woollen yarn to imported wool.			

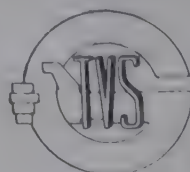
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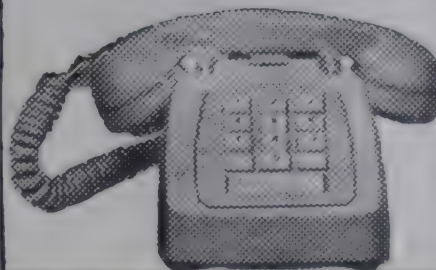
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Dattaram ITI-120

Abstract—Central Excises

S. No.	Tariff Item No.	Commodity	Estimated net effect in one full year		Remarks
			(+)	(—)	
1	2	3	4	5	6
(Rs lakhs)					
A—Items where tariff description has been rationalised or rates have been revised (but excluding items included under 'B' below)					
I—Existing Items					
1.	1A(1)	Boiled sweets, toffees, caramels, candies, etc.		160	
2.	1C(2)	Unpasteurised butter	10		
3.	1D	Aerated waters	neg.		
4.	411(2)	Cigarettes	1275		
5.	4II(3)	Biris	3225*		*includes Rs lakhs due to crease in addl. of excise in li sales tax.
6.	12	Solvent extracted VNE oils		16	
7.	14	Paints and Varnishes	485		
8.	15A	Plastics	50		
9.	16	Tyres—original equipment for two-wheelers/three-wheelers		140	
10.	16A(1)	Latex foam sponge		75	
11.	16AA	Synthetic rubber	40		
12.	17	Paper		310	
13.	18	Man-made fibres and yarn			
		(i) Textured yarn		300	
		(ii) Cellulosic spun yarn in hanks		175	
14.	18A	Cotton yarn—			
		(i) Yarn in hanks	—	150	
		(ii) Yarn consumed in composite mills	—	4100 £	
		(iii) Yarn cleared in other forms (consumed by powerlooms, hosiery, etc.)	400	—	
15.	18B	Woollen yarn	—	800 ££	
16.	18E	Yarn predominantly woollen	—	350 ££	
17.	19	Cotton fabrics—			
		(i) produced on powerlooms	—	250	
		(ii) hand-processed	—	75	
		(iii) produced by composite mills	4100	— £	
18.	26	Steel ingots	200	£££	
19.	26AA	Iron or steel products	—	200 £££	
20.	29A	Water coolers	—	15	
21.	30	Electric motors			
22.	30A	Power driven pumps	neg.		
23.	31	Electric batteries	—	180	
24.	33	Electric fans	—	10	
25.	33A	Wireless receiving sets	65	—	
26.	33D	Office machines	neg.		
27.	33F	Stereo systems	25	—	

		(Rs lakhs)	
34	Motor vehicles	665	—
37	Films—exposed	700	—
37A	Gramophones	—	25
37AA	Tape recorders	—	neg.
38	Matches	—	70
43	Wool tops	—	550 ££
47	Slotted angles	—	14
59	Electric insulating tapes	—	32
68	All other goods, n.e.s.	3000	—

Total of I

14240

7997

II—New levies

14H	Gases (by widening the existing description to include acetylene gas).	215	—
15D	Polishes	45	—
44	Watches	250	—
45	Weighing machines	115	—
51A	Tools (by widening the existing description to include more tools)	275	—
61	Electric lighting fittings	175	—

Total of II

1075

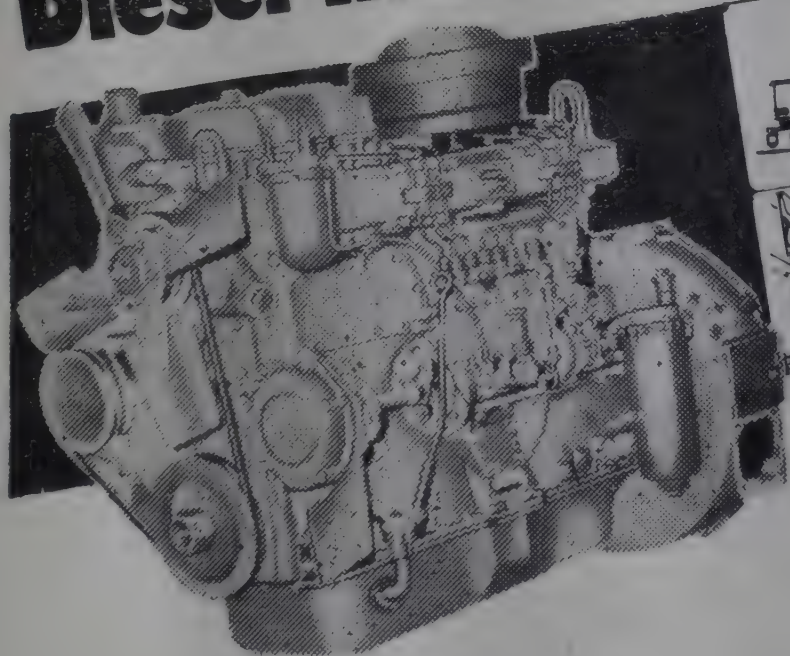
Total of A

15315

7997

—Contd.

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1	2	3	4	5	6
			(Rs lakhs)		
B—Items where auxiliary duty of excise is merged with basic duty of excise with nil or little revenue significance			4		
43.	4I(1), (2), (3) & (4)	Unmanufactured tobacco		neg.	
44.	4II(1)	Cigars & cheroots		neg.	
45.	4II(4)	Smoking mixtures		Nil	
46.	14C	Glycerine		Nil	
47.	14D	Synthetic organic dye-stuffs	8		
48.	14DD	Optical bleaching agents	18	—	
49.	14F	Cosmetics		Nil	
50.	14H	Gases (existing gases)		neg.	
51.	16B	Plywood		Nil	
52.	18D	Jute yarn		Nil	
53.	22A(2)	Jute manufactures	15		
54.	23(2)	Cement (other than grey Portland, etc.)		Nil	
55.	26A	Copper		Nil	
56.	26B	Zinc		neg.	
57.	27	Aluminium	—		4
58.	28	Tin plates			
Total of B			45		4
Total of A and B			15360		8001
Net Effect			7359		

£ Loss in revenue under cotton yarn is being made good by an increase in revenue under cotton fabrics as a result of transfer of duty from yarn to fabric stage.

££ Loss in revenue under woollen yarn, yarn predominantly woollen and wool top is proposed to be made good by suitable adjustment of import duty on raw wool, woollen waste and rags.

£££ The loss in revenue under iron or steel products and corresponding gain in revenue under steel ingots is as a result of transfer of duty from product stage to ingot stage.

SUMMARY

	Centre	States (Rs lakhs)	Total
Basic	5371	1343	6714
Addl. (in lieu of Sales Tax)	9	636	645
TOTAL : for one full year	5380	1979	7359
For the remaining part of the year	4230	1556	5786

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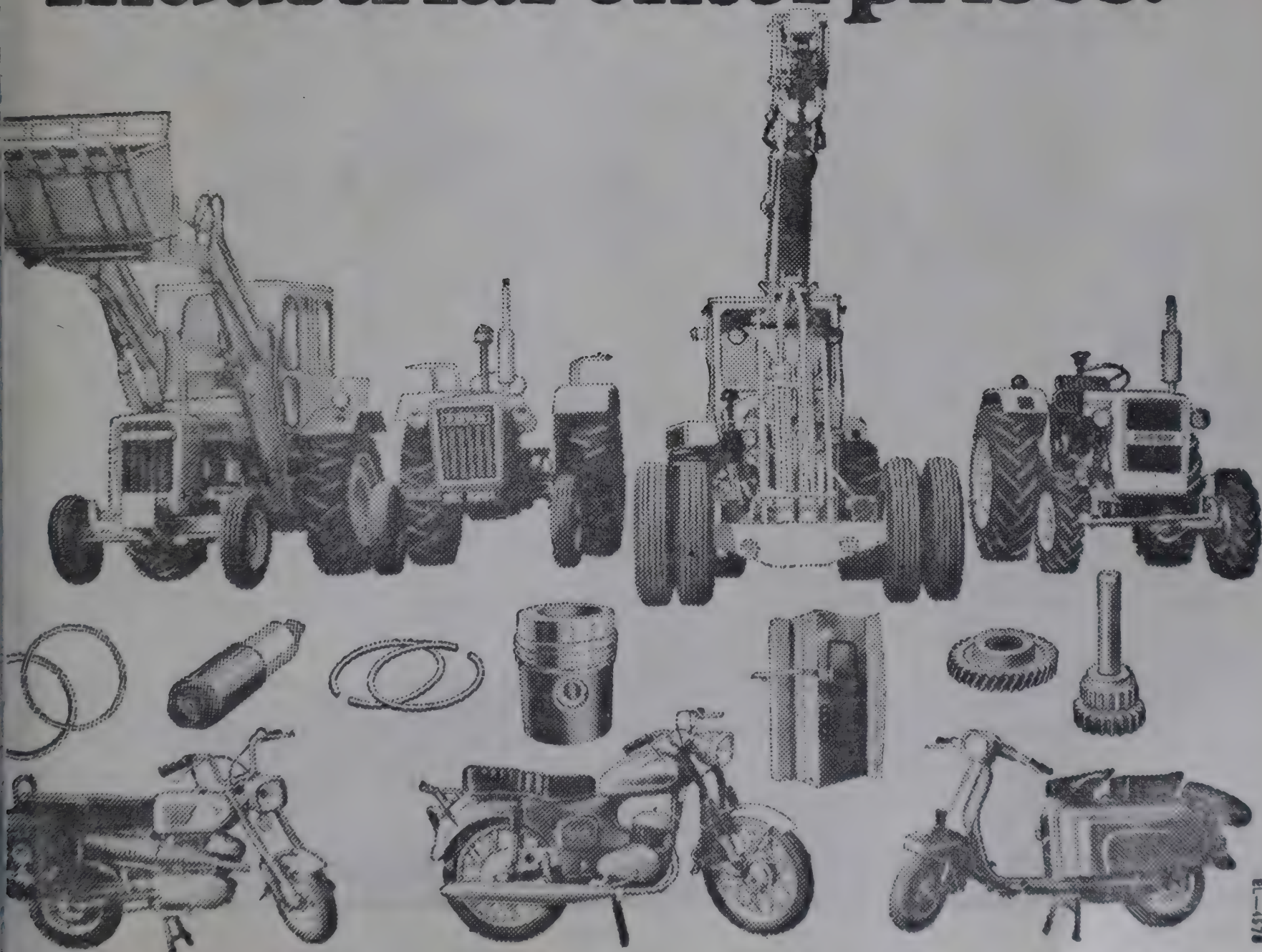
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